THE FEDERAL BUDGET FOR 2011

TUESDAY, MARCH 16, 2010.

FISCAL YEAR 2011 BUDGET AND ECONOMIC OUTLOOK

CONGRESSMAN DAVID OBEY, CHAIRMAN

WITNESSES

HON. TIMOTHY F. GEITHNER, SECRETARY, U.S. DEPARTMENT OF THE TREASURY
CHRISTINA D. ROMER, CHAIR, COUNCIL OF ECONOMIC ADVISORS
PETER R. ORSZAG, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

OPENING STATEMENT OF CHAIRMAN OBEY

Chairman OBEY. I ask the room to come to order.

Good morning, everybody. We are here today to discuss the budget and the economic situation and plans for the coming year.

These plans need to be put in proper context. President Obama inherited four major cost drivers: the cost of two wars; the cost of TARP; the revenue losses due to the economic downturn; and the revenue loss due to two unpaid-for tax cuts, benefiting the wealthy to a very large measure.

These circumstances didn't just happen overnight, and they can't be fixed overnight either. However, the American people are very clear in their expectations. Their main concerns are jobs, family income, and keeping the United States strong at home and abroad.

President Obama, as virtually his first action last year, asked Congress to pass an economic recovery package aimed at reducing job losses and preventing another Great Depression.

I would ask the staff to put Chart 1 up on the screen, please.

As Chart No. 1 shows, the cost of the Recovery Act, including interest, which is demonstrated by the bar on the right of the chart, is less than 10 percent of the total deficit legacy that we face over the coming years: $1.1 billion versus about $11 billion.

Now, we all know that we have to address the debt and the long-term budget deficits in order to provide for the long-term health of our Nation. But as we do so, we cannot fail to deal with three other serious deficits: the jobs deficit, the income deficit, and the opportunity deficit.

This economy has shed 8.4 million jobs since December of 2007. Almost one-tenth of the labor force is unemployed, and one-sixth is either unemployed or underemployed. To ease that job loss, the Congress and the administration cooperated in passing the Recovery Act.

I now invite your attention to Chart No. 2.

Some people say that the Recovery Act has not saved a single job. If they cannot see that that assertion is not true, it is simply, in my judgment, because they don't want to see. As Chart 2 demonstrates, between December of 2008 and March of 2009, we lost 753,000 jobs a month. We enacted the Recovery Act in February of 2009, and it took several months for it to begin to take effect. As the chart demonstrates, in the 3 months from October of 2009 to January 2010, that job loss declined from a high of 750,000 to 35,000, a 95 percent reduction.

While none of us will be satisfied until the economy is once again adding jobs, we have come a long way in the last year in turning the picture around. In each of the last couple of months, full-time employment has actually grown by hundreds of thousands. However, the hole is deep, and it will take time and constant effort to fill it.

You know, every week somebody asks me why Americans are so angry. I would ask it another way: Why on Earth wouldn't they be angry? They have been given the shaft for most of the last decade. The fact is most Americans are suffering from a different kind of deficit: an income deficit.

From the New Deal until a generation ago, incomes were growing at about the same rate for everyone, from working families to the richest among us. Since the 1970s, however, almost all income gains have gone to the top. Income for the middle fifth of American families rose only 15 percent from 1979 to 2006, and most of that growth came about because women were working much longer hours each year than three decades ago. In contrast, those with incomes in the top 10 percent saw their income grow by 133 percent. Those in the top 10 percent now receive half of all income in America.

Chart No. 3, if the staff would put it on the screen, please.

Chart No. 3 shows that those even higher on the income ladder have had mind-boggling income gains. In 2007, the average income of the top one-hundredth of 1 percent reached $35 million, up almost tenfold over the last three decades. Meanwhile, the rest of society was getting table scraps.

We have seen the largest transfer of income up the income ladder in recorded economic history. Why shouldn't middle-income taxpayers be angry?

And, since 2000, this income deficit has only been made worse by passage of huge tax cuts tilted toward the rich. Some are still pushing to eliminate the estate tax that affects only the richest. That is a prescription not to heal the patient but to poison it.

What can we do to restore balance and budget discipline? Enacting health care reforms would create an important safety net for working families. Allowing tax cuts for the top 2 percent of income to expire as scheduled would also, it seems to me, make sense.

And there is one more deficit we ought to confront, which is addressed by Chart No. 4. The opportunity deficit is perhaps the most troubling of all that we face. Many studies have shown that family income is a greater determinant of college graduation than the aptitude of students.

Among students who score in the top quarter on 8th-grade math tests, the child of a wealthy family who has graduated from college graduated 74 percent of the time, while the child who came from a poor family graduated only 29 percent of the time, even though they demonstrated the same ability. As a matter of justice, we need to provide these low- and middle-income kids the better education opportunities they need and they deserve.

So, in summary, this is the context in which our witnesses appear before us today to explain the administration's economic policies and budget policies—the context of how jobs will be created, how income differences can be reduced, and how opportunities can be created for those in the middle and lower rung of our economic scale.

We have with us today Treasury Secretary Geithner, Council on Economic Advisors Chairman Romer, and OMB Director Orszag. And after I have called on Mr. Lewis for whatever comments he would like to make, we would be happy to hear from our three witnesses.

Mr. Lewis.

[Statement by Chairman David R. Obey.]

COMMITTEE ON APPROPRIATIONS
DAVID R. OBEY, CHAIRMAN

Tuesday, March 16, 2010
Press Contact: Ellis Brachman / Jenilee Keefe Singer (202) 225-2771

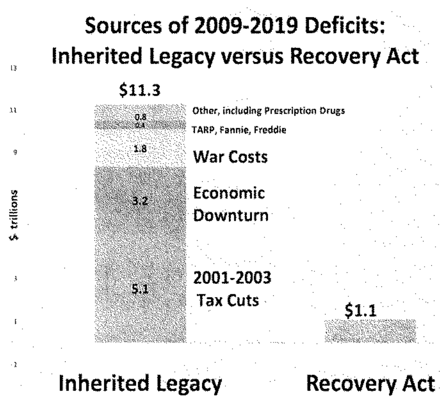
Opening Statement
Chairman David R. Obey
House Appropriations Committee
Hearing on the FY 2011 Budget & Economic Outlook
with Peter Orszag, Tim Geithner, and Christina Romer
(As Prepared for Delivery)

We are here today to discuss the budget and economic situation and plans for the coming year. These plans need to be put in proper context. President Obama inherited four major cost drivers – the cost of two wars, the cost of TARP, the revenue loss due to the economic downturn, and the revenue loss due to two unpaid-for tax cuts benefiting the wealthy. These circumstances didn't happen overnight, and they can't be fixed overnight either.

However, the American people are very clear in their expectations. Their main concerns are jobs, family income and keeping the US strong – at home and abroad.

President Obama, as virtually his first action last year, asked Congress to pass an economic recovery package aimed at reducing job losses and preventing another Great Depression.

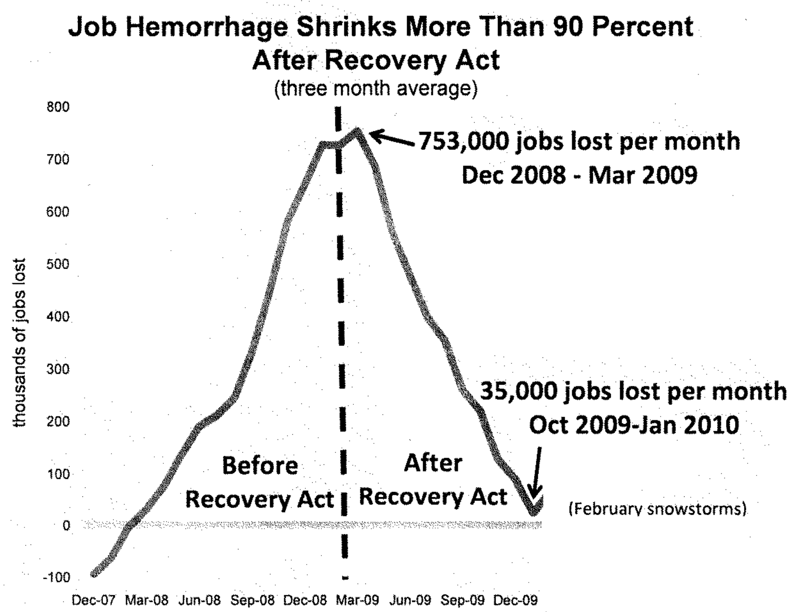
For context, the cost of the Recovery Act, including interest, is less than ten percent of the total deficit legacy that we face over the coming years.



We must address the debt and budget deficits for the long term health of our nation. As we do so, we must not fail to deal with three other serious deficits: a jobs deficit, an income deficit, and an opportunity deficit.

We have lost 8.4 million jobs since December 2007. Almost one tenth of the labor force is unemployed and one-sixth is either unemployed or underemployed. To ease that job loss we passed the Recovery Act.

Some people say that the Recovery Act has not saved a single job. If they cannot see that that assertion is not true it is simply because they don't want to see. As chart two shows, between December 2008 and March 2009, we lost 753,000 jobs a month. We enacted the Recovery Act in February, 2009 and it took several months to begin to take hold. As the chart demonstrates, in the three months from October, 2009 to January, 2010, that job loss declined from a high of 753,000 to 35,000, a 95% reduction.



While none of us will be satisfied until the economy is once again adding jobs, we have come a long way in the last year in turning this picture around.

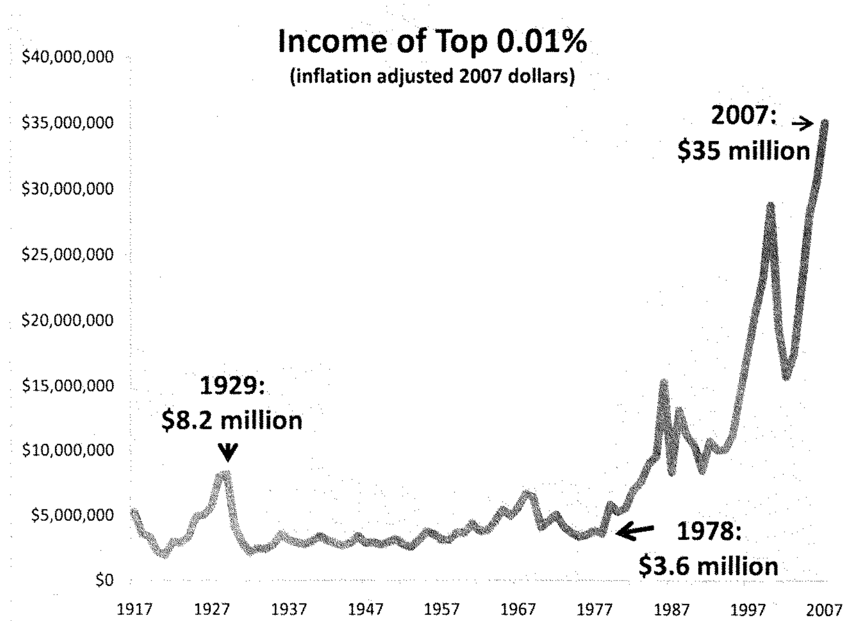
In each of the last couple of months, full time employment has actually grown by hundreds of thousands. However, the hole is deep and it will take time and constant effort to fill it.

You know every week someone asks me why Americans are so angry. I would ask it another way – why on earth wouldn't they be angry? They have been given the shaft for most of the last decade. The fact is most Americans are suffering from a different kind of deficit, an income deficit.

From the New Deal until a generation ago, incomes were growing at about the same rate for everyone – from working families to the richest among us. Since the 1970s, however, almost all income gains have gone to the top.

Income for the middle fifth of American families rose only 15 percent from 1979 to 2006, and most of that growth came about because women are working much longer hours each year than three decades ago. In contrast, those with incomes in the top ten percent saw their income grow 133%. Those in the top ten percent now receive half of all income in America.

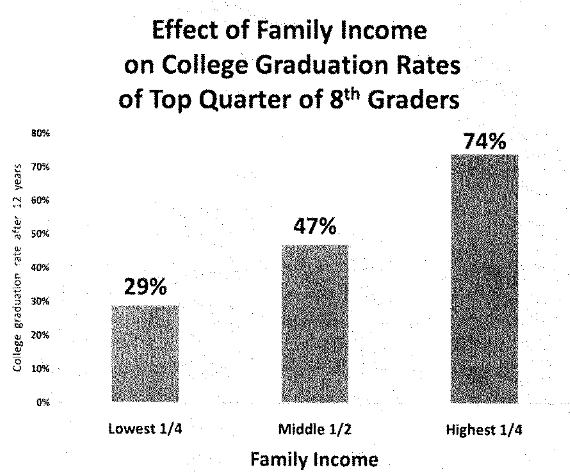
Those even higher on the income ladder have had mindboggling income gains. In 2007, the average income of the top one hundredth of one percent reached $35 million, up almost ten-fold over the last three decades. Meanwhile the rest of society was getting table scraps. We have seen the largest transfer of income up the income ladder in recorded economic history. Why shouldn't middle income taxpayers be angry?



And since 2000, this income deficit has only been made worse by passage of huge tax cuts tilted toward the rich. Some are still pushing to eliminate the estate tax that affects only the richest. That is a prescription not to heal the patient but to poison it.

What can we do to restore balance and budget discipline? Enacting health care reforms would create an important safety net for working families. Allowing tax cuts for the top two percent of income to expire as scheduled would also make sense.

And there is one more deficit we should confront – the opportunity deficit. The opportunity deficit is perhaps the most troubling of all that we face. Many studies have shown that family income is a greater determinant of college graduation than the aptitude of the student. Among students who scored in the top quarter on 8th grade math tests, the child of a wealthy family graduated from college 74 percent of the time, while the child who came from a poor family graduated only 29 percent of the time even though they demonstrate the same ability. As a matter of justice, we must provide these low and middle income kids the better educational opportunities they need and deserve.



So, in summary, this is the context that I will examine your budget proposal – the context of how jobs will be created, how income differences will be reduced, and how opportunities will be created for those in the middle and lower rungs of the income ladder.

OPENING STATEMENT OF CONGRESSMAN LEWIS

Mr. LEWIS. Thank you very much, Mr. Chairman.

I digress before addressing specifically our panel. Our late leader in the committee, Jack Murtha, almost threw people out of the room when they put up charts. That is almost entirely because we all know that charts can serve their own purpose. And, indeed, it brings forth the phrase, "Liars, darn liars, and statisticians."

But, in the meantime, I would like to begin this morning by expressing our thanks to Secretary Geithner, to Director Orszag, and to Dr. Romer for being with us today.

Even as Republicans and Democrats remain divided on the many issues of the day, I believe we are all in agreement that the fiscal path we are currently on is unsustainable. With an annual deficit of $1.6 trillion, unemployment hovering near 10 percent across the country—in my district, pushing in many places beyond 15 percent—and an economy showing only tepid signs of recovery, it is clear that we must change course now or face catastrophic consequences in the very near future.

My colleagues, I think the simple truth is that Uncle Sam, among other things, needs a diet. Our greatest challenge and our greatest hope to achieving a lasting recovery lies in curbing Uncle Sam's appetite for spending. It is time to cut up the government credit card and live within our means or face disaster.

Since 2007, the Appropriations Committee has overseen the unprecedented 28 percent increase in annual nondefense discretionary spending. Last year alone, nondefense and veterans discretionary spending increased by almost 13 percent. And that is excluding the $862 billion stimulus package.

This stunning acceleration of spending has led to skyrocketing deficits, but annual discretionary funding is only part, as you know, of that equation. Over the long term, at current projections, spending on the three major mandatory entitlement programs will one day consume our entire budget.

Changing course will require a level of political courage not often found here in Washington. Absent making tough choices, starting today, we will continue inflicting lasting damage on our economy, affecting not only our grandchildren but their grandchildren as well.

Earlier this year, the President announced with great fanfare that he would submit a fiscal year 2011 budget that freezes most nondefense and non-homeland discretionary spending. However, that doesn't appear to be the budget that he has submitted. If I am wrong, I would hope you would clarify that.

I say that, because the President's budget currently increases spending across eight of the 12 Appropriations subcommittees, where is the suggested freeze? Mr. President, we are anxious to see your freeze.

It is disingenuous to suggest that the budget represents anything close to a freeze, particularly when it is being applied to the budget after last year's 13 percent increase in discretionary spending and after last year's stimulus package, which was approved under the faulty premise of stimulating the economy and creating jobs. Unemployment rates at 15 percent in my district would suggest that clearly has missed the target.

In addition, the President's plan relies on several accounting gimmicks, like transferring Pell Grants to mandatory spending, to skew the true totals. Ultimately, this proposal will have very little, if any, positive effect on our overall budget picture. There is not a Member in this room today who believes this budget will result in significant deficit reduction.

In my view, the President's budget falls woefully short in reining in the government's spending. It simply doesn't go far enough, given the scale of the fiscal challenges we face. The administration continues to ignore the explosive growth of entitlement programs and places its hopes in a fiscal commission to address the tough issues of this budget.

Sadly, this commission is not accountable to Congress or the American public, and it won't even begin to make recommendations until after the midterm elections. About the time we start running our government by way of commission is about the time we truly know we are on the pathway to bankruptcy.

The administration's own numbers paint an unflattering picture of the President's budget. Over the course of the next 10 years, when the administration assumes the economy to have recovered from the recession and the war in Iraq to have ended, our debt, deficits, and spending will remain out of control and will continue to worsen.

Assume for a moment that we finally implemented this President's budget. The deficit would never drop below $700 billion and would start climbing above $1 trillion again by fiscal year 2020. Publicly held debt would nearly triple by the year 2020. The interest on this debt would quadruple over the same period and would become one of the largest single expenditures of the Federal budget.

Ironically, the issue is not lack of revenue under the President's budget. This is because our President is proposing nearly $2 trillion in additional receipts over the next decade from various tax increases, fee increases, and other revenue-raisers. So not only will Uncle Sam be spending more, but the President's budget will be aggressively taking money out of the pockets of taxpayers and out of the private economy.

At this moment, for every available job in the United States, there are six people now seeking work. The President has said that creating new jobs and reducing unemployment is, and I quote, "the single most important thing we can do to rebuild the middle class."

The key to job growth lies not in more spending, more stimulus, or more jobs bills, but in less spending, less taxation, and removing regulatory barriers that will hinder economic growth. Putting it simply, the administration is not only spending too much, in my view, it is scaring the hell out of small businesses, the economic engine of our national economy.

It has done this through promoting cap-and-trade legislation, new rules on greenhouse gases, and new taxes and fees from its health care reform bill—all of which will result in higher prices that will be passed on to consumers. How many small businesses are going to invest or rehire anyone in this uncertain environment?

We can agree to disagree on the cause of our economic troubles, but the fact remains that we cannot spend our way to economic health. Until this Congress and this administration curbs its appetite for spending, our economy will continue to suffer. I will close, as I began, with this comment: The simple truth is that Uncle Sam does need to go on a diet.

Thank you, Mr. Chairman.

Chairman OBEY. Well done.

If we could proceed with our testimony, I would ask each of our witnesses to please hold your comments to 5 minutes.

And I will ask each Member, when we get to the questioning period, to remember that the 5-minute limitation applies to both question and answer. So if Members would like to receive an answer from the witnesses, it would be very helpful if we don't give 5-minute speeches along the way. We will have to keep a very tight clock this morning so that as many Members as possible have an opportunity to question.

Secretary Geithner.

Secretary GEITHNER. Thank you, Chairman Obey, Ranking Member Lewis, members of the committee. Thanks for asking us to come up and speak with you today.

Your hearing takes place at a critical moment for the American economy. We are seeing some encouraging signs of progress, but we face many, many daunting challenges ahead. Today, though, we can say that because of the actions we took to put out the financial fire and because of the Recovery Act, the economy is expanding.

Because we provided 95 percent of working Americans with a tax cut; because we provided billions to State and local governments to maintain basic services to keep teachers, police officers, firefighters, first responders on the job; because we provided emergency relief to those hardest hit by the recession by expanding and extending unemployment benefits and to make health insurance cheaper for families who rely on COBRA; because we provided support for infrastructure projects that are rebuilding roads and modernizing buildings across the country; because we acted to bring down the cost of borrowing from municipal governments for families and for businesses—because of all that, the economy is expanding, exports are rising, manufacturing output is increasing, businesses are investing again, and consumption is growing.

This is progress, but this recession caused a huge amount of damage, and it is going to take a lot of time to repair the wreckage and establish a stronger foundation for future growth in income and opportunity in this country.

Now, the President believes that right now it is important that the Congress act to reenforce this expansion and make sure that it translates into job creation and broad-based income growth that reaches across the country. And he believes the best way to do that is for Congress to authorize targeted, additional investments in the following areas.

First, we want to ramp up support for small businesses. We proposed tax cuts for small businesses; a new small-business lending fund that will increase access to credit for small businesses; and expanded authority for the Small Business Administration.

Second, we need to boost investment in the Nation's infrastructure so we can help enlist the private sector to take on public works projects that are overdue and will help put more Americans back to work.

Third, we need to continue supporting State and local governments so that they can avoid further cuts to essential services and personnel.

And we also need to invest in clean energy, because by providing incentives for consumers to retrofit their homes now and promoting energy efficiency, we can help American households save money, help reduce emissions, and help create clean jobs.

Now, Chairwoman Romer will speak shortly—will shortly speak in greater detail—she may speak shortly, too—about our economic outlook and the immediate challenges ahead. But at the core of the President's economic strategy is a recognition that we need to invest in reforms so that we can innovate and grow.

We need to invest more in basic science and research so that American businesses will fund the technologies of the future. We need to invest in education so we can do a better job of teaching and creating the skilled workforce of tomorrow. We need to invest in export promotion, because the more products our businesses make and sell to other countries, the more jobs we will support at home. And, at the same time, we do enact a set of reforms that are critical to how the economy performs in the future: Reforms that reduce the rate of growth in health care costs, reforms to change how we use energy, and financial reforms that will protect consumers and investors and support future economic growth by making sure our financial system is channelling the savings of Americans into investments in companies that are innovating and growing, not just in feeding real estate and financial booms.

Now, these are necessary steps, but, of course, as you have both recognized, they are not enough. As we act to reenforce this economic expansion, as we pursue investments and reforms that are vital to the economy and to our future, we need to return again to living within our means.

When we have strong growth in place, we need to begin the process of reducing our deficits. Deficits matter. Ours are too high; they are unsustainable. And the American people, along with investors around the world, need to have more confidence in our ability to bring them down over time.

Now, the President has outlined in his budget a set of policies to achieve that goal, policies that would generate, if enacted by the Congress, more than $1.2 trillion in deficit reduction over the next 10 years, reduce our deficit to below 4 percent of GDP. And this is more deficit reduction as a share of the economy than any President has proposed in more than a decade.

And, of course, that is why the President has created a bipartisan national commission on fiscal responsibility charged with bringing up further reducements in our medium-term deficits and proposing ways to deal with our long-term deficits, as well.

Now, Director Orszag is going to speak in more detail about the steps that are necessary to restore fiscal responsibility to the country.

I just want to end by saying, Mr. Chairman, the central challenge we face is making sure that, as we deal with the immediate and the urgent, as we focus on repairing the damage caused by this crisis, we are keeping our eye on the important. It is making sure that we provide immediate, targeted reenforcements to the expansion, but that we also implement a program of important investments and reforms so that we lay the foundation for growth that is stronger in the future, more sustainable, and is shared by more Americans.

To restore confidence among families and businesses, we need to demonstrate that this government, this city is capable of coming together to solve problems. They want to see us act.

The economy today is much stronger than it was a year ago. We are in a much stronger position to deal with these many challenges. But we have a lot of work ahead of us.

Thank you very much.

Chairman OBEY. Thank you, Mr. Secretary.

Chairwoman Romer.

Ms. ROMER. Chairman Obey, Ranking Member Lewis, members of the committee, like my colleagues, I am delighted to be with you this morning.

I am going to take just a few minutes to talk in more detail about the policy response to the crisis, the administration's economic forecast, and the need for further job creation measures.

In the months before President Obama took office, the American economy faced disruptions even larger than those that triggered the Great Depression. The disturbance to credit markets, the decline in wealth, and the rise in uncertainty were larger in the fall of 2008 than in late 1929 and early 1930.

The result was a terrible deterioration in economic conditions. Real GDP declined at an annual rate of over 5 percent in the fourth quarter of 2008 and over 6 percent in the first quarter of 2009. And job losses totalled more than 4 million in those 6 fateful months. The threat of a second Great Depression was frighteningly real.

That the shocks did not precipitate such a depression is a testament to the swift and strong policy response. The centerpiece of that response was the American Recovery and Reinvestment Act of 2009. Simply put, the Recovery Act is the boldest countercyclical fiscal action in American history.

Estimates from the Council of Economic Advisers, the nonpartisan Congressional Budget Office, and a range of private forecasters suggest that, because of the Recovery Act, employment as of the fourth quarter of 2009 was between 1.5 million and 2 million higher than it otherwise would have been, and these employment effects will continue to rise in 2010.

More generally, the broad policy response has helped to change the trajectory of the economy. Our financial markets are functioning again. Real GDP began growing in the third quarter of last year and grew at a robust 5.9 percent annual rate in the fourth quarter. Job losses have slowed to a trickle.

However, significant challenges remain. Most obviously, the current unemployment rate of 9.7 percent is simply unacceptable by any metric. And employment is 8.4 million below what it was when the recession started.

Now, prior to each budget, the troika—the Council of Economic Advisers, the Office of Management and Budget, and the Treasury—work together to produce an economic forecast. This year's forecast was finalized in mid-November. And all forecasts are subject to substantial margins of error. And, especially in the wake of a severe downturn, usual patterns surely provide less guidance than in more ordinary times. But we have based our budget projections on our best estimates of what lies ahead.

For GDP, the forecast projects moderate growth of 3 percent on a fourth-quarter-to-fourth-quarter basis in 2010, followed by somewhat higher growth of 4.3 percent in each of 2011 and 2012. Compared with recoveries from other severe recessions, the projected growth is relatively modest, particularly in 2010.

In terms of the labor market, the forecast projects average job growth of about 100,000 per month this year, about 200,000 per month in 2011, and about 250,000 per month in 2012.

Typically, following a recession, we see increases in productivity, temporary employment, and the length of the workweek before overall employment begins to recover. For the most part, developments in recent months have been following this pattern. Productivity growth has surged. Temporary help employment has risen strongly for 5 consecutive months. And the workweek has been generally rising. We expect to begin seeing job gains sometime this spring. Indeed, some private forecasters, such as Mark Zandi of moodyseconomy.com and those at Goldman Sachs, predict positive job growth this month.

It typically takes employment growth of somewhat over 100,000 per month to actually bring the unemployment rate down. Because we do not expect particularly robust job growth over the remainder of this year, we do not expect to see substantial further declines in unemployment this year. As the pace of job creation picks up in 2011 and 2012, we are likely to see much greater progress in reducing unemployment. Nevertheless, because of the severe toll the recession has taken on the labor market, unemployment is likely to remain elevated for an extended period.

Because of the high levels of slack in the economy, we expect inflation to remain low, and we see little risk of substantial increases in inflation. At the same time, inflationary expectations appear to be very well-anchored. And so we do not expect to see inflation fall substantially further or turn into outright deflation.

We project inflation again on a fourth-quarter-to-fourth-quarter basis, as measured by the GDP price index, of some 1 percent this year, 1.4 percent in 2011, and 1.7 percent in 2012.

These forecasts of key economic indicators are very much in the range both of the private forecasters surveyed by the blue chip economic indicators and the central tendency of the Federal Reserve's Federal Open Market Committee forecast.

Now, developments since November have not led to large changes in the economic outlook. The most significant development was the good news that GDP growth in the fourth quarter of last year was higher than we and virtually all other analysts expected as of mid-November.

Another favorable development was the fall in the unemployment rate by three-tenths of a percentage point in January and the maintenance of that lower rate in February. As a result, it appears possible that the average unemployment rate for 2010 will be slightly below our November forecast.

The budget was released before specific policy options to spur job creation had been finalized, and the exact form that these actions take will influence the pace of job creation. The President has recently proposed specific high-impact measures to spur job creation, which would improve the outlook for employment and output if they were implemented.

One cost-effective policy is continued support for those most directly affected by the recession. Precisely because of their difficult circumstances, these families are likely to spend a large fraction of the continued support that they receive. Thus, the support not only directly helps them weather the recession but also stimulates demand and improves the overall economy.

Likewise, the weak budgetary conditions of State and local governments means that additional fiscal support to the States will prevent cuts in vital services and counterproductive tax increases and so, again, have strong output and employment effects.

A measure that could have a particularly strong employment effect is a payroll tax credit for new hiring, such as the administration's proposed Small Business Jobs and Wages Tax Cut or the payroll tax credit for hiring unemployed workers proposed by Senators Schumer and Hatch. These proposals rely on the basic economic principle that if you want more of something—in this case, hiring—you should lower the price. The proposals offer a significant benefit to firms that undertake new hiring. Such credits have the potential for a large impact on job creation at a relatively modest budgetary cost.

Now, these are not the only job creation measures that the President thinks should be done, and he is anxious to work with Congress on other ideas. But it is essential that we take further action to spur employment growth and that we do so as soon as possible.

Thank you.

Chairman OBEY. Thank you.

Director Orszag.

OPENING STATEMENT OF DIRECTOR ORSZAG

Mr. ORSZAG. Thank you very much, Mr. Chairman. Let me offer some brief remarks.

First, the deficit is temporarily elevated because of the economic downturn and steps necessary to address it. This temporary rise in the deficit is both natural and desirable during an economic downturn. In other words, the problem is not this year's deficit.

As we look out over time, however, current policy suggests an utterly unsustainable course, and that is the problem. So how did we get here, and what should we do about it?

First, let me clear up some misconceptions about what has been happening in the very near term, including statements about the Obama administration and a massive increase in spending.

If you look at the record, in fiscal year 2008 spending was 20.9 percent of GDP. In 2009, it was 24.7 percent of GDP—a very significant increase. But let's examine where that 4 percentage point increase came from.

On January 7th, 2009, well before President Obama stepped into the Oval Office, CBO issued its economic and budget outlook. That document very clearly showed an increase in spending from the 20.9 percent in 2008 to a projected 24.9 percent in 2009. In other words, that 4 percentage point increase was already baked into the cake before the Obama administration stepped into office.

Reality has turned out somewhat different. Total spending is slightly lower. The mix of spending is different. But I hope we can return to the question of what drove that increase.

Second, with regard to the medium-term deficits, I think, Mr. Obey, we have slightly different numbers because the time periods are slightly different, but the basic point from this chart is analytically correct, which is there is a lingering effect from the economic downturn and then a very significant effect from the 2001 and 2003 tax legislation, along with the Medicare prescription drug benefit. And that can more than explain the total deficit that we face over the medium term.

That is all fine and well, but what are we doing about the problem? It is fine to say we inherited a big problem, but what are we doing?

The first very basic, core principle has to do with PAYGO. We now have statutory pay-as-you-go legislation. I would just point out that if we had obeyed and abided by pay-as-you-go legislation in the past, those outyear deficits, instead of being 5 percent of GDP, would be 2 percent of GDP. We would have a stable medium-term fiscal trajectory over the next decade if the 2001 and 2003 tax legislation had been financed—not deficit-financed, but had been offset—and if the Medicare prescription drug benefit had not been deficit-financed.

Second, it is important to recognize that economic recovery itself will help to bring down the deficit from roughly 10 percent of GDP this year to about 5 percent of GDP in 2015. That is still too high. A fiscal target of roughly 3 percent would stabilize debt as a share of the economy, and that should be our objective.

So how do we get the rest of the way there?

First, we have already put forward specific policy proposals totaling $1.2 trillion in deficit reduction over the next decade, which I would point out is more deficit reduction than contained in any administration budget that has been put forward in more than a decade. That includes a new fee on financial services firms. It includes allowing the 2001 and 2003 tax legislation to expire for the very top earners in our society. And it does include the 3-year freeze on nonsecurity spending.

And I hope we can return to that question, also, because Table S-11 shows reductions in agency after agency, whether it is from the Agriculture Department to the Commerce Department to HHS, HUD, Interior, Justice, Labor, and so on down the line.

Even with that very significant deficit reduction, however, the hole is so deep that we do not get to our fiscal target of 3 percent of GDP. This is why we have called for the creation of a bipartisan fiscal commission not only to address our long-term fiscal imbalance but also to put forward recommendations to get the rest of the way there over the medium term. And we could have further discussion about that.

That all has to do with the next decade. As you look out further over time, the key to our long-term fiscal future has to do the rising cost of health care. It is absolutely essential that we move towards paying for quality rather than quantity in health care. And the legislation that is under consideration has very important movement in that direction, which we could also discuss during the question-and-answer period.

Finally, I want to highlight the efforts that we are undertaking to seek more efficiency in government in part so that we can free up resources to invest in education, R&D, and other drivers of long-term productivity growth. We have put forward 126 program terminations, which would amount to $23 billion, including the Constellation program at NASA, the Advanced Earned Income Tax Credit, the C–17, the alternative engine for the Joint Strike Fighter, and fossil fuel subsidies.

And we look forward to working with the Congress to get all of those changes enacted. We had success last year, much higher success in our program terminations and reductions, than had been the case in the past. And we look forward similar success this year.

Finally, if I could just close, Mr. Chairman, by saying what we are putting forward is a dramatically different vision, in which we are trying to address not only the fiscal deficit but the other deficits that you identified: The opportunity deficit, the jobs deficit.

That is a dramatically different vision than the plan that has been put forward by Representative Paul Ryan, which would not only cause a higher deficit in 2020 at the end of the budget window—7 percent of GDP, which is higher than under the administration's budget, according to the Tax Policy Center and the Center on Budget and Policy Priorities—but also would reduce taxes for the top 1 percent of the income distribution by 50 percent. So it contains not only higher deficits but also exacerbation of the opportunity deficit that you were discussing.

So we do face a basic choice, and I hope we have further discussion of that basic choice.

Thank you very much, Mr. Chairman.

[Joint Statement of Timothy F. Geithner, Peter R. Orszag, and Christina D. Romer before the Committee on Appropriations, U.S. House of Representatives.]

Joint Statement of Timothy F. Geithner, Peter R. Orszag, and Christina D. Romer
Before the Committee on Appropriations, U.S. House of Representatives
March 16, 2010

Chairman Obey, Ranking Member Lewis, and Members of the Committee, thank you for inviting us to testify this morning about the Troika forecast, the outlook for the American economy, and the Administration's economic agenda.

We come before you after a trying year for the Nation. A little more than one year ago, the economy seemed on the verge of a second Great Depression. Together with the Congress, the President worked aggressively to stabilize the financial system and bring the economy back from the brink. The worst now appears to be behind us. However, the country faces significant and ongoing challenges: high unemployment, the need to build a new and stable foundation for prosperity in the years and decades ahead, and a medium- and long-term fiscal situation that could ultimately undermine future job creation and economic growth. The big problems we face today were all years in the making, and it is our responsibility to address them without delay.

I. Rescuing the American Economy from the Great Recession

Responding to a Historic Crisis

In the months before President Obama took office, the American economy faced disruptions even larger than those that triggered the Great Depression. The disturbances to credit markets, the decline in wealth, and the rise in uncertainty were all much larger than those that hit the economy in late 1929 and early 1930. The result of these shocks was a terrible deterioration in economic conditions in late 2008 and early 2009. Real GDP declined at an annual rate of over 5 percent in the fourth quarter of 2008 and over 6 percent in the first quarter of 2009, and job losses averaged 650,000 per month in the fourth quarter of 2008 and 750,000 per month in the first quarter of 2009. The threat of a second Great Depression was frighteningly real.

That the shocks did not precipitate a second Great Depression is a testament to the swift and strong policy response by the Administration and Congress, together with the actions of the Federal Reserve and other financial regulators. With the unemployment rate now at 9.7 percent, the economy is obviously far from healthy. But over the past year, its trajectory has changed from uncontrolled freefall to approximate stability, with growth in all major private components of GDP last quarter.

The centerpiece of the policy response was the American Recovery and Reinvestment Act of 2009 (Recovery Act). Simply put, the Recovery Act is the boldest countercyclical fiscal action in American history. It was designed to fill part of the shortfall in aggregate demand caused by the collapse in private spending. It is providing tax cuts and increases in government spending equivalent to roughly 2 percent of GDP in 2009 and 2¼ percent in 2010. It is well diversified, because the decline was broad-based and because different kinds of stimulus affect the economy in different ways. Roughly one-third of the overall package—and an even larger fraction of the package implemented to date—consists of tax cuts. These include the Making Work Pay tax credit, which cuts taxes for 95 percent of America's working families, as well as important tax cuts for small businesses. The bill also includes crucial support for unemployed workers and others most directly affected by the recession; critical assistance to State governments, whose budgets have been devastated by the recession; and vital government investments in everything from roads and bridges to clean energy technologies.

The Recovery Act was part of a broader set of policies to turn the economy around. These policies included additional fiscal actions, such as the "cash for clunkers" program and important extensions of business tax cuts and support for the unemployed. On the financial side, they included the stress tests that led to greater confidence in the stability of our leading financial institutions and allowed them to raise crucial private funds, as well as the numerous actions undertaken by the Treasury and the Federal Reserve to maintain critical credit flows. In the housing market, they included the Home Affordable Refinance Program to help families refinance their mortgages at lower rates, the Home Affordable Modification Program to encourage responsible loan modifications, and numerous actions to maintain mortgage lending and bring mortgage interest rates to historic lows.

The policies have clearly helped to change the trajectory of the economy. Our financial markets are secure again, and most credit spreads—a common measure of default risk and financial market unease—are down almost to historical norms. Housing prices appear to have largely stabilized. Real GDP began growing in the third quarter of 2009 and grew at a robust 5.9 percent annual rate in the fourth quarter. Job losses have slowed to a trickle.

Experts from across the ideological spectrum assign these policy responses a key role in the economy's improved trajectory. In the case of the Recovery Act in particular, estimates from the Council of Economic Advisers, the nonpartisan Congressional Budget Office (CBO), and a range of private forecasters suggest that because of the Recovery Act, GDP in the fourth quarter of 2009 was between 1½ and 2½ percent higher than it otherwise would have been, that employment was between 1 and 2 million higher, and that these contributions will continue to rise in 2010.

Of course, the economy is far from fully recovered, and significant challenges remain. Most obviously, the current unemployment rate of 9.7 percent is unacceptable by any metric, and employment is 8.4 million below its level before the recession.

The Administration Forecast

Prior to each Budget, the "Troika"—the Council of Economic Advisers, the Office of Management and Budget, and the Treasury—work together to produce an economic forecast. This year, our forecast was finalized on November 17, 2009, and so reflects data through mid-November. All forecasts are subject to substantial margins of error. And, in the wake of a severe downturn such as the one we have just been through, usual patterns provide less guidance than in more ordinary times. But we have based the Budget projections on our best estimates of what lies ahead.

GDP growth. For GDP, the forecast projects moderate growth of 3.0 percent (on a fourth-quarter-to-fourth-quarter basis) in 2010, followed by somewhat higher growth of 4.3 percent in both 2011 and 2012. Compared with the recoveries from other severe recessions, the projected growth is relatively modest, particularly in 2010. This reflects a combination of factors, including the limitations on monetary policy coming from the fact that interest rates cannot go below zero; the weakened state of households' and firms' balance sheets; the continuing caution of households and firms following the searing events of the past two years; and the weak condition of State and local government budgets.

Employment and unemployment. In terms of the labor market, the forecast projects average job growth of about 100,000 per month in 2010, about 200,000 per month in 2011, and about 250,000 per month in 2012. Typically following a recession, we see increases in productivity, temporary employment, and the length of the workweek before employment begins to recover. For the most part, developments in recent months have been following this pattern. Productivity growth has surged; temporary help employment has risen for 5 consecutive months; and the workweek has been generally rising. We expect to begin seeing job gains by sometime this spring.

Because of normal growth in the population and the fact that some workers are likely to reenter the labor force as the economy improves, it typically takes employment growth of somewhat over 100,000 per month to bring the unemployment rate down. Because we do not expect job growth substantially over 100,000 per month over the remainder of the year, we do not expect substantial further declines in unemployment this year. Indeed, the rate may rise slightly over the next few months as some workers return to the labor force, before beginning a steady downward trend. It is also worth noting that the productivity growth we have seen in the last three quarters is the fastest in nearly 50 years. This rapid growth in output per hour has allowed firms to raise production without hiring additional workers. This record pace of productivity growth almost certainly will not be maintained much longer, implying that further increases in output will require additions to the labor force.

As the pace of job creation picks up in 2011 and 2012, there is likely to be greater progress in reducing unemployment. Nonetheless, because of the severe toll the recession has taken on the labor market, the unemployment rate is likely to remain elevated for an extended period. The forecast projects that in the fourth quarter of 2011, the unemployment rate will be 8.9 percent, and that by the fourth quarter of 2012, it will be 7.9 percent.

Inflation. Because of the high levels of slack in the economy, we expect inflation to remain low and see little risk of substantial increases in inflation. At the same time, inflation expectations appear to be well anchored, and so we do not expect inflation to fall substantially further or turn into outright deflation. We project inflation (on a fourth-quarter-to-fourth-quarter basis, as measured by the GDP price index) of 1.0 percent in 2010, 1.4 percent in 2011, and 1.7 percent in 2012.

These forecasts are very much in the range of both the private forecasters surveyed by Blue Chip Economic Indicators and the central tendency of the Federal Reserve's Federal Open Market Committee forecasts. The one prominent forecast that differs importantly from the Administration's is the forecast released by CBO in January, which is considerably more pessimistic about the economic outlook. However, as CBO noted, it is required to make its projections under the assumption of no changes to current law. Thus, it is forced to assume that no additional fiscal support is provided to the economy—and, indeed, that there is substantial fiscal retrenchment due to the scheduled expiration of the 2001 and 2003 tax cuts at the end of this year. This is not what the Administration has proposed, and CBO noted that in the absence of these assumptions its forecast would resemble other prominent forecasts.

Developments since November have not led to large changes in the economic outlook. The most significant development was the good news that GDP growth in the fourth quarter of 2009 was much higher than we and virtually all other analysts expected in mid-November. In considerable part because of an unexpectedly rapid slowing of inventory liquidation, GDP grew in the fourth quarter at a very strong 5.9 percent annual rate. Another favorable development was the fall in the unemployment rate by three-tenths of a percentage point in January, and the maintenance of that lower rate in February. As a result, at this point it appears possible that the average unemployment rate in 2010 will be slightly below our November forecast.

The Need for Additional Targeted Measures to Spur Job Creation

As with any forecast, the forecast underlying the 2011 Budget is just an estimate, and there are risks to it in both directions. In thinking about the risks, there are two key points to keep in mind. First, because of the severity of the downturn that began over two years ago, even in the best case unemployment will remain elevated for an extended period. Second, the Budget was released before specific policy options to spur job creation had been finalized, and the exact form that these proposals take will influence the actual pace of job creation. The President has recently proposed specific high-impact measures to spur job creation, which would improve the outlook for output and employment if implemented.

One cost-effective policy is continued support for those most directly affected by the recession. Precisely because of their difficult circumstances, these families are likely to spend a large fraction of the continued support they receive. Thus, the support not only directly helps them weather the recession, but also stimulates demand and improves the condition of the overall economy. Likewise, the weak budgetary conditions of State governments mean that any additional fiscal support to the States will prevent cuts to vital services and counterproductive tax increases, and so also have strong effects.

Another cost-effective program is the Administration's proposal to inject $30 billion of capital into smaller banks, which are a key source of lending to the small businesses that are facing difficulties obtaining credit and are critical to the recovery. Because the program would include incentives for increased lending and because the capital could be leveraged several times into new loans, the program has the potential to contribute significantly to job creation at little long-run cost to the taxpayer. Moreover, the Administration has proposed eliminating capital gains taxes on investments in small businesses; using TARP funds to provide lower-cost capital to CDFIs to boost small business lending in hard-hit areas; and extending and expanding two successful Small Business Administration programs. The Administration also supports tax incentives for investments in home energy retrofitting and carefully chosen additional infrastructure investments, which could prove effective in spurring the recovery.

Finally, one measure that could have a strong effect on job creation in particular is a payroll tax credit for new hiring, such as the Administration's proposed Small Business Jobs and Wages Tax Cut or the payroll tax credit for hiring unemployed workers proposed by Senators Schumer and Hatch. These proposals rely on the basic economic principle that if you want more of something—in this case, hiring—you should lower its price. The proposals offer significant benefits to firms that undertake new hiring. Estimates by the Council of Economic Advisers, CBO, and a range of private analysts suggest that such credits have the potential to have a large impact on job creation at a relatively moderate budgetary cost. We also believe that the current situation—where for many firms the question is not whether to hire but when—is one that may make such programs particularly effective.

II. Investing in a New Foundation for Growth

As great as the economy's immediate challenges are and have been, our country's economic problems are also deeper and more long-standing. For nearly a decade, typical American families had seen their incomes stagnate instead of rising steadily as they had for generations. Much of the economic growth that we had experienced in the past decade was fueled by consumers and the Government running up large debts, aided by a financial system better at making short-term profits than managing long-term risks. And as a country, we were failing to invest in education, new energy technologies, and basic research and development.

In order to build a new foundation for American prosperity, we must reverse these trends, and the President's Budget outlines policies that will make important progress in doing so:

Financial Regulatory Reform

A strong, healthy financial system is crucial for sustainable growth, job creation, and broad-based prosperity. Such a system helps families to save for a house, a child's education, and retirement, while at the same time channeling those savings into investments that enable businesses to grow, hire, and raise incomes.

Although our financial system is far stronger today than it was a year ago, it is operating under the same rules of the road that led to its near-collapse and to a historic recession. We need a financial system in which financial firms—especially large ones—have more capital to absorb their own losses and cannot take risks that threaten the whole economy. Consumers need to be given better information to make the decisions that are right for them, and they need to be protected from unfair and fraudulent practices. The Federal Government needs to have authority to break apart and unwind failing firms in ways that limit damage to the system as a whole. The Administration has proposed reforms that would accomplish these goals, and the House has already passed legislation. We must now finish the job of enacting comprehensive reform for the sake of people's financial safety and to ensure growth.

Education and Job Training

Sound investments in education and job training in education are crucial to building the skills and productivity of the Nation's current and future workers. The Budget supports the Administration's efforts to make major reforms and improvements in the nation's elementary and secondary schools—by, for example, expanding the Recovery Act's successful Race to the Top competition to include not only States, but also individual school districts, and by investing in a new competitive fund to encourage States to develop innovative methods for recruiting, retaining, and rewarding effective teachers.

To further the President's commitment that a family's finances should never be a barrier to higher education for a qualified student, the Budget proposes making permanent the 2010 increase in the maximum Pell Grant award to $5,550 and raising it thereafter at a rate a percentage point faster than inflation; the Budget would also make Pell a mandatory program in order to provide greater funding certainty for students aspiring to college. The Budget would extend the American Opportunity Tax Credit, which provides a tax incentive of up to $2,500 per year toward college costs (up to $10,000 for a young person earning a four-year degree). Furthermore, the Budget proposes to assist overburdened student loan borrowers by reducing monthly payments and shortening the repayment period so that these borrowers would pay a maximum of 10 percent of their discretionary income in loan repayments and would have their remaining debt forgiven after 20 years. And the Budget proposes to increase community college graduation by 5 million students by 2020 and provide new incentives for the rising generation of students to train as scientists and engineers.

To keep Americans building new and marketable skills throughout their working lives, the Budget provides $19 billion for job training and employment programs Government-wide, a $1.1 billion, or 6 percent, increase from 2010. This level includes two new innovation funds that will test and evaluate new approaches to training disconnected youths, building regional partnerships, and supporting apprenticeships. The Budget will also support a ten-year extension of Trade Adjustment Assistance Act assistance for American workers who have lost their jobs due to imports or shifts in production overseas, and provide additional support for training in green jobs.

Research and Innovation

At the very core of the Administration's efforts to build a new foundation for growth are efforts to encourage American innovation. We already made the largest investment in basic research funding in history last year, and we propose to build on that: the Budget would increase civilian research and development (R&D) by 6.4 percent, with the aim of helping to create conditions for greater economic productivity and the emergence of new growth- and job-creating businesses.

But while continuing the commitment to double funding for three key basic research agencies—the National Science Foundation, the Department of Energy's Office of Science, and the National Institute of Standards and Technology—the Budget also eliminates programs that are not effectively achieving their goals. For example, the Budget cancels NASA's Constellation program, which was intended to return astronauts to the Moon by 2020, but has run severely behind schedule and over-budget. In place of Constellation, the Budget proposes to leverage international partnerships and commercial capabilities to set the stage for a revitalized human space flight program, while also accelerating work—constrained for years due to the budget demands of Constellation—on climate science, green aviation, science education, and other priorities.

Clean Energy

Although it is clear our Nation can no longer afford its heavy reliance on fossil fuels to power the economy, the transition from fossil fuels to clean energy will challenge both America's technical ingenuity and our political will. Yet this challenge holds out tremendous possibilities—not just for improving our health and the environment, but also for transforming our economy into the world leader in clean energy technologies.

The Recovery Act is already investing $90 billion in clean energy, and the Budget extends that commitment. It would expand by $5 billion our Advanced Energy Manufacturing Tax Credit, a 30 percent credit for qualified investments in new, expanded, or re-equipped clean energy projects. It would also substantially enhance support for construction of new nuclear power plants by increasing loan guarantee authority for such projects by $36 billion. It would fund a $500 million credit subsidy to support $3 billion to $5 billion of loan guarantees for energy efficiency and renewable energy projects. And it would continue work begun under the Recovery Act to modernize our electrical grid so that it is smarter, stronger, and more efficient, and so that it helps to foster the growth of wind and solar energy projects.

Infrastructure

For too long, our Nation avoided making the necessary investments in the roads, bridges, levees, waterways, communications networks, and transit systems needed to keep pace with the times. Outdated infrastructure burdens our communities in a number of ways: longer commutes, businesses choosing to locate elsewhere including overseas, and growth and job creation held back. Through the Recovery Act, we made the largest investment in our Nation's infrastructure since President Eisenhower called for the creation of the national highway system half a century ago.

The Budget will build upon the Recovery Act's infrastructure investments. For example, the Budget proposes to invest $4 billion in a new National Infrastructure Innovation and Finance Fund to invest in projects of demonstrable merit and of regional or national significance. And it would also follow through on the Administration's five-year, $5 billion commitment to develop high-speed rail routes.

The Budget would also expand and make permanent the Recovery Act's successful Build America Bond (BAB) program. The BAB program has expanded the investor base for municipal bonds and lowered borrowing costs for States and localities, helping to restore a badly damaged municipal finance market and support job creation through new infrastructure projects. States and localities have already issued $78 billion in such bonds through the end of February. The Budget proposes making the BAB program permanent with a 28 percent subsidy rate that makes extension revenue-neutral. The Budget also proposes expanding the eligible uses of these bonds, allowing them to support financing for nonprofits and a wider range of municipal borrowing.

Export Promotion

A critical component in building a new foundation for stable, long-term growth—and a complement to the Administration's investments in research and innovation—is opening up foreign markets to American goods and services. The President has set a goal of doubling our exports over the next five years and thereby supporting two million American jobs. The Budget would substantially increase funding to meet this goal and expand American exports, especially those produced by small businesses. For example, the Budget would provide a 20-percent increase in Commerce Department funding to promote exports from small businesses, as well as increased funding for the Export-Import Bank to expand use of the Bank's financial export assistance among U.S. small businesses.

III. Restoring Fiscal Discipline

Unfortunately, beyond the current unemployment picture and the urgent need to build a new foundation for long-term prosperity, we also face a substantial fiscal deficit. On the day the Administration took office, the budget deficit for 2009 stood at $1.3 trillion, or 9.2 percent of GDP—higher than in any year since World War II. And, over the following ten years, projected deficits totaled $8 trillion.

Short-Term Deficits

The deficit increased substantially in fiscal year 2009, which began on October 1, 2008. Given the depth of the economic downturn in late 2008, an increase in the deficit as we entered 2009 was to be expected—and, indeed, such an increase was temporarily desirable because it increased aggregate demand in the economy. The increase in the deficit during 2009 reflected a decline in revenue and an increase in spending, both of which were already apparent before the Administration took office. For example, on January 7, 2009, the Congressional Budget Office (CBO) issued its Economic and Budget Outlook for Fiscal Years 2009-2019. In that document, CBO projected that Government spending would rise from 20.9 percent of GDP in fiscal year 2008 to 24.9 percent of GDP in fiscal year 2009. In reality, Government spending in fiscal year 2009 turned out to be roughly what had been predicted a year earlier (24.7 percent), according to

CBO's updated Economic and Budget Outlook issued in January of this year. (The mix of spending was slightly different from what CBO had initially projected, with somewhat lower mandatory spending and somewhat higher discretionary spending as a share of the economy.)

Medium-Term Deficits

In addition to the 2009 deficit, the Administration also inherited an $8 trillion ten-year deficit. Even these figures, moreover, understate the fiscal shortfall the Administration actually inherited for the next decade. As of last winter, the depth of the current recession was not yet fully apparent. Since we released our Budget overview last February, the deterioration in our economic and technical assumptions added another $2 trillion to the deficit through 2019, as it became clear that we were in the midst of the worst recession since the Great Depression.

As a result, without changes in policy, deficits would total $10.6 trillion over the next ten years—and would fall from their current levels to an average of about 5 percent of GDP in the second half of the decade.

This unsustainable starting point largely reflects two factors: a failure to pay for policies in the past and the impact of the economic downturn.

- More than half of these deficits can be linked to the previous Administration's failure to pay for the 2001/2003 tax cuts and the prescription drug bill. Over the next ten years, these two unpaid-for policies are slated to add $5.8 trillion to the deficit, including interest expense on the additional associated debt. Put differently, if these two policies had been paid for, projected deficits—without any further deficit reduction—would be about 2 percent of GDP per year by the middle of the decade, and we would have been on a sustainable medium-term fiscal course.

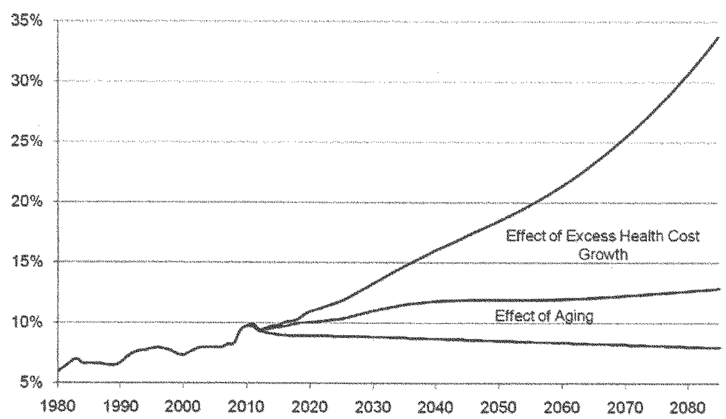
- The recession that began in December 2007 also adds considerably to the projected deficits. When the economy enters a recession, the Federal Government's receipts automatically fall and the costs for certain programs, such as unemployment insurance, automatically rise. Over the next ten years, these automatic stabilizers are projected to add about $2.4 trillion to the deficit, including interest expense.

Finally, it is worth noting that the Recovery Act—which, as discussed, has been key to restoring economic growth—plays a relatively small role in the projected deficits compared to these other costs. Over the next ten years, the deficit impact of the Recovery Act is less than one-tenth the size of the combined costs associated with 2001/2003 tax cuts, the prescription drug bill, and the automatic effects of the recession on the Federal budget.

Summed together, this fiscal legacy—the unpaid-for 2001/2003 tax cuts and prescription drug bill, as well as the worst recession since the Great Depression and our necessary response to it—accounts for $9 trillion of the projected deficits under current policies. They are the reason that our medium-term deficits are on an unsustainable course.

Long-Term Deficits

As our horizon extends beyond the next decade, the role of health care costs in driving our budget deficits becomes more prominent. The figure below shows the projected growth of Medicare, Medicaid, and Social Security spending over the next 75-years, assuming historical excess health care cost growth continues. The top line shows the actual forecast of spending growth, taking into account both the aging of the population and the excess growth of health care costs. The middle line removes the impact of excess cost growth, and the bottom line removes the impact of both excess cost growth and the aging of the population. This figure illustrates two things. First, that we are on an unsustainable path. Within the next half century, spending on these three programs is projected to exceed 20 percent of GDP, more than double their current share of the economy. Second, that we cannot close the long-term fiscal shortfall without slowing the rate of health care cost growth. Reducing excess cost growth by 15 basis points (0.15 percentage points) generates more savings than closing the entire Social Security deficit over the next 75 years.



Policies to Reduce the Deficit and Restore Responsibility

That is how these projected deficits over the next decade arose and how our long-term fiscal future is dominated by health care costs. But whatever their cause, our future prosperity may be threatened if we do not address our medium- and long-term fiscal trajectory. Of course, we must bear in mind that it is not a sensible to begin fiscal contraction when the unemployment rate is nearly 10 percent. What we need to do is put into place sensible measures to reduce the deficit as we recover from the recession. So what are we doing?

First, we have already taken action to ensure that we do not make the fiscal hole deeper. Congress has now enacted statutory pay-as-you-go (PAYGO) legislation. PAYGO forces us to live by a simple but important principle: Congress can only spend a dollar on a non-emergency mandatory spending increase or tax cut if it saves a dollar elsewhere. In the 1990s, statutory PAYGO encouraged the tough choices that helped move the Government from large deficits to surpluses, and it can do the same today.

Second, as the economy recovers, the deficit will naturally decline. Our projections show the deficit falling from roughly 10 percent of GDP to roughly 5 percent of GDP by the middle of the decade as a result of this effect.

The President's Budget represents another important step toward fiscal sustainability. The Budget reduces deficits by $1.2 trillion over the next 10 years—not including savings associated with our presumed ramp-down of operations in Iraq and Afghanistan. If those savings are included, deficit reduction under our Budget comes to $2.1 trillion. Furthermore, the President's Budget cuts the inherited deficit in half as a share of GDP by the end of the President's first term.

The deficit reduction steps include:

Imposing a three-year freeze on non-security discretionary funding. Over the past year, a surge in Federal spending has helped to bolster macroeconomic demand, while also funding long-needed investments that are helping to build a new foundation for economic growth. But, as the economy recovers, we need to rebalance our spending priorities, as we transition from jumpstarting the economy to restoring fiscal sustainability. That is why the President's Budget proposes a three-year freeze in non-security discretionary funding (that is, discretionary funding outside of defense, homeland security, veterans affairs, and international affairs), with funding thereafter increasing roughly with inflation. The proposed freeze in non-security discretionary funding from 2010 to 2011 is well below the 5 percent average growth in such funding since the early 1990s. And over the next 10 years, this policy saves $250 billion relative to continuing the 2010 funding levels for these programs adjusted for inflation.

Requiring the financial services industry to fully pay back the costs of the Troubled Asset Relief Program (TARP). Assisting the financial services industry was necessary to prevent an even worse financial meltdown—and even greater repercussions throughout the entire economy. But this step rewarded firms that had taken excessive and unreasonable risks. The Administration is calling for a Financial Crisis Responsibility Fee on the largest Wall Street and financial firms that will last at least 10 years, but longer if necessary, to compensate the taxpayers fully for the extraordinary support—both direct and indirect—that they provided through the TARP program. This fee would be limited to financial firms with over $50 billion in assets. As it would be based on an institution's size and exposure to debt, it would also further the Administration's financial reform goals by encouraging firms to reduce their size and leverage—which were two major contributors to the financial crisis.

Allowing the 2001-2003 tax cuts for households earning more than $250,000 to expire. The Budget proposes allowing most of the 2001/2003 tax cuts to expire in 2011, as scheduled, for those families making more than $250,000 ($200,000 for single individuals). The additional revenues gained would be devoted to deficit reduction. These tax cuts were unaffordable at the time they were enacted, and remain so today. The Budget would simply return the marginal tax rates for these wealthiest Americans to what they were prior to 2001. Altogether, allowing these tax cuts to expire would save $678 billion over the next ten years relative to current policy.

Limiting the rate at which itemized deductions can reduce tax liability to 28 percent for families with incomes over $250,000. Currently, if a middle-class family donates a dollar to its favorite charity or spends a dollar on mortgage interest, it gets a 15-cent tax deduction, but a millionaire who does the same enjoys a deduction that is more than twice as generous. By reducing this disparity and returning the high-income deduction to the same rates that were in place at the end of the Reagan Administration, the Budget raises $291 billion over the next decade.

Eliminating funding for inefficient fossil fuel subsidies. As we work to create a clean energy economy, it is counterproductive to spend taxpayer dollars on incentives that run counter to this national priority. To further this goal and reduce the deficit, the Budget eliminates tax preferences and funding for programs that provide inefficient fossil fuel subsidies and undermine efforts to deal with carbon pollution. The Budget proposes eliminating 12 tax breaks for oil, gas, and coal companies, closing loopholes to raise nearly $39 billion over the next decade.

Health Insurance Reform

In addition to these specific policies to address the medium-term deficit, the Administration has also faced head-on the primary driver of our long-term fiscal shortfall—rising health care costs. The President's proposal—and the health insurance reform legislation that the House and Senate have already passed—would not only reduce the deficit over the next decade as scored by the non-partisan CBO, but perhaps more importantly would create an infrastructure that would help to improve quality and constrain costs over the long term. Indeed, final legislation would aggressively test different approaches to delivering health care and move toward paying for quality rather than quantity. In the Recovery Act, we took steps toward greater quality at lower cost by making historic investments in health information technology and research into which treatments work and which do not. Comprehensive health insurance reform would build on these investments by providing tools and incentives for physicians, hospitals, and other providers to improve quality.

Comprehensive reform would also include an Independent Payment Advisory Board—composed of doctors and other health care experts—that can enable Medicare and the health system as a whole to keep pace with innovation and the dynamic health care marketplace. The Board would help to make sure that reforming the health care system is not a one-time event, but rather an ongoing process over time, creating a continuous feedback loop where we generate more and better information about what is working in the health care delivery system and then rapidly bring those initiatives to scale. And reform would include an excise tax on the highest-cost insurance plans. The proposed tax on "Cadillac" health insurance plans will do more than help pay for reform; it will help to slow health care cost growth and thereby also give Americans a pay raise.

Congress must now take the final steps toward this promise of fiscally responsible health reform—the stakes are high, both for the millions of Americans who lack a stable source of health insurance coverage and for the fiscal wellbeing of the Nation itself.

*****

Taken together, the more than $1 trillion in deficit reduction proposed by our Budget represents an important step toward fiscal responsibility over the medium term, and the health legislation under consideration would help to reduce deficits over the longer term.

Fiscal Commission

The President has now proposed two budgets that reduce out-year deficits. But even with this substantial deficit reduction, the Nation will still face unsustainable medium- and long-term deficits. The only way to solve the remainder of our fiscal challenge is to do so in a bipartisan fashion. That's why the President has called for the creation of a bipartisan Fiscal Commission to identify policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run.

Specifically, in addition to addressing our long-term fiscal imbalance, the Commission is charged with balancing the budget excluding interest payments on the debt by 2015. This result is projected to stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers. The magnitude and timing of the policy measures necessary to achieve this goal are subject to considerable uncertainty and will depend on the evolution of the economy. In addition, the Commission will examine policies to meaningfully improve the long-run fiscal outlook, including changes to address the growth of entitlement spending and the gap between the projected revenues and expenditures of the Federal Government.

IV. Conclusion

The policies we have enacted in the last year and those proposed in the President's Budget seek to restore economic and fiscal health after years of poor decisions. While we have much work left to do to accomplish this goal, our economic freefall has been stopped; financial markets have calmed; and the Recovery Act returned our economy to growth in the third quarter of last year. We are making new investments—in financial regulatory reform, education, research and innovation, clean energy, infrastructure, and export promotion—that will build a new foundation for shared prosperity among all Americans. On the fiscal front, the President's Budget puts on the table more than $1 trillion in deficit reduction over the next ten years by imposing historic restraint on the growth of non-security discretionary funding and restoring fairness and balance to the tax code.

These are key steps forward, but they are not enough. Although the rate of job loss has slowed dramatically, job gain has not yet begun, and the Administration will not be satisfied until the many Americans seeking work can find it. Moreover, while our Budget significantly reduces projected deficits, they remain undesirably high.

The Administration is committed to addressing these challenges facing our Nation, and we look forward to working with you in the weeks and months ahead to do so.

Chairman OBEY. Thank you.

Again, let me remind Members we have a color-coded clock here in front of me, and I will enforce the 5-minute rule strictly this morning.

Just one question before I turn to Mr. Lewis. It has been suggested by some critics of the administration that, because we have continued to see job loss in the economy, that somehow the recovery package has not had a positive impact on unemployment. I would like you to give us your response to that.

And then, secondly, I want to ask one other question. In my view, because of the incredible stress laid on workers in this recession, there is very little faith that they have remaining in either political party because they feel, I think, that the entire system has failed them, in terms of putting the needs of average workers before the needs of high-rollers in this society.

And I would ask you what your response would be to their concerns if they were looking you straight in the eye and saying that today.

Ms. ROMER. All right. Well, why don't I take the question on whether, because we are still losing jobs, that is a sign that the Recovery Act has not worked.

I think nothing could be further from the truth. As I mentioned in my opening statement, what is true is that what hit this economy in 2008 was simply of enormous proportions and truly were shocks larger than precipitated the Great Depression. So we were an economy with incredible downward momentum. The unemployment rate, we knew, was rising rapidly.

I think all of the evidence that we have suggests that the Recovery Act has been essential to changing the trajectory of this economy, going from GDP falling at over 6 percent in the first quarter of 2009 to rising almost 6 percent. You know, I mentioned the estimates that the Council of Economic Advisors has done, that it saved or created some 2 million jobs as of the fourth quarter.

But those aren't just our numbers. You can look at the Congressional Budget Office; you can look at private-sector forecasts from across the ideological spectrum. All of them say that conditions would have been tremendously worse had it not been for the Recovery Act.

So I think that is absolutely the essential point to understand here.

Secretary GEITHNER. Mr. Chairman, let me just add one point.

If you look at any measure of economic activity in the United States or around the world, any measure of confidence in the financial system, any measure of confidence among businesses or consumers, what you saw in March of last year was, after all those things were falling off the cliff, they turned. And they turned when people around the world saw this government act, and act forcefully, to fix the mess we all came into office with.

And it was those actions that started to change that turn. And you saw growth resume in this economy just, really, one quarter after Congress started that process of authoring those basic actions. So it was a quick arrest in a panic of unprecedented force and a very quick resumption of the basic conditions, growth that have to precede job creation.

On the broad question, I would say the following. We came into office not just facing the worst recession since the Great Depression, but we came into this mess with a series of other really daunting challenges. We have seen a long period of stagnant growth in the median wage in the country, a long period of very dramatic rise in income inequality, a long period of relative erosion in the quality of educational opportunities our government has provided our children. We came into office with a long period of very, very rapid growth in health care costs, a deep erosion of the fiscal vision of the country.

Now, addressing those challenges is going to take a long time, Mr. Chairman, as you said. But we are in a much stronger position to address those things that matter so much to the basic security of Americans today because we acted so forcefully to address the crisis. We are in a much stronger position today to help begin to address those problems and try to rebuild confidence in the basic security of Americans.

Mr. ORSZAG. Can I just very briefly add on? In addition to the——

Chairman OBEY. In 27 seconds.

Mr. ORSZAG. I am going to do it in 27 seconds.

In addition to addressing the short-term economic distress that middle-class families face, the budget moves towards improving our education system, towards providing additional assistance for things like child care, for example. And it also avoids the mistake of exacerbating the tensions on middle-class families by undertaking the kind of tax shift that is embodied in the Ryan plan.

Chairman OBEY. Thank you.

Mr. Lewis.

Good job. That was exactly 5 minutes. I hope everyone keeps it up.

Mr. LEWIS. Mr. Chairman, as you exercise the 5-minute rule, it is quite amazing to have this turnout of the committee. And I hope the panel understands, presuming that if all of our Members get to spend 5 minutes with you, it is going to be an extensive period here, but the Members are looking forward to that opportunity.

Your budget is claiming to freeze nonsecurity spending for the next 3 years. However, this assumes several accounting, what I would call, gimmicks: Shifting billions of dollars in Pell Grant funding as well as additional LIHEAP funding to the mandatory side. But even without these maneuvers, many of our subcommittees for many of what you are calling nonsecurities-funded would go up over the last year.

Now, if the Pell Grants and additional LIHEAP costs remain discretionary, what would be the percentage increase of nonsecurity over last year's enacted level?

Mr. ORSZAG. I believe that would be directed to me.

First, let me just again point out, we proposed moving the Pell Grant to a mandatory program last year. We proposed it again this year. We believe that that is the right policy so that the Pell Grant is not subject to the vicissitudes of the annual appropriations process and so that you can go out to an 8th- or 9th-grader and say, "This money will be there if you work hard and enroll in college," and provide more certainty.

That having been said, depending how the existing shortfall—and, by the way, the existence of the shortfall, in our opinion, underscores our point, which is: College enrollment is up; that is putting more pressure on the Pell Grant program. And, in our opinion, that is why one manifestation of why moving to the mandatory side makes sense.

That having been said, the answer to your question depends on how that existing shortfall is handled, including in the higher education bill. If it is entirely covered, there would need not be any percentage increase from 2010 to 2011 that would be associated with keeping Pell as discretionary, as one example.

Mr. LEWIS. Thank you for your response.

I must say that it occurs to me that State and other international programs funded in your security category would continue to receive increases through at least the year 2015, even though, by then, America will supposedly have withdrawn its military forces and presence in Iraq and Afghanistan.

Why are there no savings from this downturn in the State and international security categories?

Mr. ORSZAG. Well, one of the reasons, Congressman, is that, as troop levels are withdrawn, there is the need to move to a different model of engagement with the populations both in Iraq and Afghanistan.

More broadly, as you know, one of the other inherited deficits that we faced involved our relations with the rest of the world. And that is exactly what the State Department is trying to rectify, albeit slowly, through the various efforts that they are undertaking.

And since I think we have just a quick moment, if I could just address the question about the Recovery Act and the base for the nonsecurity funding, because I think this is very important to clarify: By the end of our 3-year period, 3-year nonsecurity freeze, nonsecurity discretionary funding will be at the same levels it would have been from 2008 projected forward with inflation.

So, in other words, forget what happened with the Recovery Act, forget what happened in the meanwhile with any appropriations bills. If you just start in 2008, take the baseline from there, we will be hitting that baseline by the end of our 3-year freeze.

Mr. LEWIS. Mr. Chairman, I think it is very important for the public to understand that what we are talking about is a rather radically adjusted uptick of the baseline across all of our funding. If, indeed, we see that pattern continue, the public is not going to miss the point. Indeed, the public is frightened out there. I mean, you go to these community forums and you will see people saying, "My God, how much more Federal Government do we need?"

The Democratic leadership has said that this bill reduces the deficit over the next 10 years. I mean, does this in part assume increased Social Security payroll revenues? Aren't these dollars already claimed for Social Security use in the future?

Mr. ORSZAG. I am sorry. What bill are you now referring to?

Mr. LEWIS. The leadership suggests that this bill——

Mr. ORSZAG. Which one?

Mr. LEWIS [continuing]. This budget bill, the health care bill——

Mr. ORSZAG. Oh, okay. Health care, yes.

Mr. LEWIS [continuing]. Reduces the deficit over the next 10 years.

Mr. ORSZAG. It is not just the leadership saying that. The Congressional Budget Office has said that.

Mr. LEWIS. It will be really interesting to see how we raise these baselines and reduce spending at the same time.

In part, this assumes, as I suggested, increased Social Security revenues. Aren't those revenues already committed to Social Security recipients?

Mr. ORSZAG. Congressman, as you know, the Federal budget already incorporates just in its base operations a system of trust fund accounting, where funds are credited to both the Social Security and Medicare trust funds and then also available to the unified budget.

Chairman OBEY. Mr. Dicks.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. DICKS. Thank you, Mr. Chairman.

I have two questions.

One, we still have a major backlog in infrastructure. I had the honor of chairing the Interior and Environment Appropriations Subcommittee for 3 years. And during the Bush administration, there was a study done of the backlog on wastewater treatment and clean water infrastructure of about $688 billion. And we know we have a backlog in transportation.

So, if that is true, why not—if you are a Keynesian, you would say, let's spend some more money on this infrastructure to further drive down unemployment and help restore the revenues into the Treasury.

Number two, what are we going to do about the small community banks? This was mentioned in the State of the Union. I still think these small community banks are critical to the recovery.

Can you help me on those two questions?

Secretary GEITHNER. Absolutely.

We agree that there is a very good economic case for putting more support, more investment into infrastructure now. We think it is good economic policy for the long run because it helps restore some basic quality to infrastructure across the country. We had a long degradation in quality of infrastructure over a long period of time. So it is good policy for the long run. And it is very good policy for the short run because it is one of the most employment-intensive forms of government investment that we can make.

We have to do it, though, in a way that is fiscally responsible. And what the President laid out in his budget is a way to make those investments still in the context of this set of broader policies that will bring those deficits down quite, quite sharply over the medium term.

Now, on the small bank, small business question, small businesses depend on small banks for about half of the credit they get. And small banks across the country, they still face a very, very difficult challenge. Many of them got too exposed to commercial real estate or they are in parts of the economy still suffering most from the recession. So there is a very good case, very good financial case, for trying to make sure that we are making capital available to small banks so they can help make sure they are keeping credit open to their business customers.

We think there are two very important ways to do that. One is by enacting what the President proposed, which is to create a fund that would provide capital to small community banks, to those that are willing to increase lending to small businesses. And the second——

Mr. DICKS. Does that require legislation?

Mr. ORSZAG. It does require legislation.

And second is to expand the ability of the SBA to provide guarantees in larger amounts at lower costs than would otherwise be possible.

We think these two things—guarantees and capital to small banks—are the most effective way we can help make sure that businesses across the country get access to the credit they need to grow and expand.

Mr. DICKS. Thank you, Mr. Chairman.

Chairman OBEY. Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

The United States enjoys an unprecedented AAA credit rating, which allows us to borrow money more cheaply. Most recently, a Moody's Investor Services quarterly report suggested that the U.S. needed to make significant improvements to avoid downgrading its credit status. The report noted that, quote, "preserving debt affordability will invariably require fiscal adjustments of a magnitude that, in some cases, will test social cohesion," end of quote. Pretty strong.

What do you think?

Secretary GEITHNER. I agree with all of you who say today, said in the past, will say in the future that our deficits are unsustainable. And it is very important that the American people understand that, if you care about long-term growth, if you care about opportunity, if you care about future growth in income, how strong our economy is, we need to make sure that we are working together to lay out a path to bring those deficits down.

It is important not just for the long run; it is important now. Because our capacity to make sure we are reenforcing this expansion to make targeted additional investments in infrastructure and helping small businesses, those things only work if they are done in a framework that produces confidence that we can restore a gravity to our fiscal position over time.

So all of you who emphasize this problem are right to emphasize it. You are absolutely right.

But those objections are not in conflict today. If you care about a long-term fiscal position, which we all do, you have to care a lot about getting this economy back on track, repairing the damage caused by the recession, make sure we are growing again with growth led by the private sector.

Mr. ROGERS. Well, let me ask——

Secretary GEITHNER. If you don't achieve that, then our long-term fiscal problems will be much more difficult to solve.

Mr. ROGERS. Let me interrupt you a second. The key determiner of credit rating is the percentage of debt to revenue. Agreed?

Secretary GEITHNER. Well, there are—I would say it this way, Congressman. What people who look at our country—credit rating agencies, investors, Americans—what they look at is whether we have the political will to restore gravity to our fiscal position over time.

Mr. ROGERS. You are exactly right. And your budget proposes a record $1.6 trillion in deficit spending. I don't think Moody's is going to like that.

Secretary GEITHNER. No, what the deficit does is—what the President's budget does is propose to bring down a deficit at exceptionally high levels that we started with dramatically over the next 4 to 5 years, to cut it dramatically as a share of the economy as a whole, to reduce it to below 4 percent of GDP in a relatively short period of time.

Now, we can only propose. Congress has to enact those changes. But if Congress were to act on those changes, you would bring about a dramatic, necessary, important improvement in our fiscal position.

Now, that will not solve all of our problems, because we still face long-term unsustainable growth in the commitments of the government. And that is why we need health care reform, other sets of changes to make sure we restore sustainability to our fiscal position.

But, again, I just want to underscore what you began with, which is: It is very important for people on both sides of the aisle to say what you are saying today, which is that deficits matter, tax cuts aren't free, we have to pay for the things we do as a government. And we have to recognize that our long-term growth requires that we restore balance to our fiscal position.

Mr. ROGERS. Well, if we lose our credit rating or it jumps down to the next level, what does that mean? We have to pay higher interest rates to borrow money?

Secretary GEITHNER. Oh, absolutely. But there is no way that is going to happen, Congressman. There is not a chance that is going to happen to this country.

But it is very important for people to recognize that, again, future growth will be weaker, this expansion, this recovery will be weaker if we don't do a better job together over time of demonstrating that we are going to have the political will to make some tough choices.

And that is why the fiscal commission is so important, because that brings Democrats and Republicans together, asks them to step back from politics of the moment and to propose changes to our policies that allow us to go back to living within our means.

Mr. ROGERS. Moody also says that debt service costs are projected to be higher in 2013 than in any other AAA-rated government—Germany, U.K., Spain, and France, by 2013. So aren't we walking a pretty tight line here about losing our credit rating?

Secretary GEITHNER. Congressman, again, I would say it this way: This is completely within our capacity as a country to solve.

The President laid out a path to get us almost all the way there, to get us below 4 percent of GDP. We have to act on that for that to work. We have to enact it.

This is within our capacity to solve it. It just requires that we work together to find some political will to make those choices.

Mr. ROGERS. Well, the political will and the budget that has been submitted projects a $1.6 trillion deficit for 1 year. And, also, the freeze that has been proposed from the administration only applies to about 10 to 15 percent of our spending. You are only freezing a tiny piece of the overall spending.

Secretary GEITHNER. One quick response?

Chairman OBEY. Ten seconds.

Secretary GEITHNER. Again, Congressman, you are right to say we started with unsustainably high deficits. They are too high. We have to bring them down.

But, again, if you look at what the President proposed, these are a very detailed comprehensive set of proposals that would reduce the deficits dramatically as a share of GDP over the next 4 to 5 years.

That is necessary, it is not sufficient, because we are still going to have to address those long-term problems. That is why health care reform is so important. But we would welcome you joining with us in trying to make sure we can help dig out of this fiscal hole we inherited.

Chairman OBEY. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

Welcome to this committee.

Just for the record, out of curiosity, because I think we live in different worlds, I am curious what your fathers did for a living. Could you state that for the record, please?

Ms. ROMER. Well, I will start. My father was a chemical engineer and worked in a manufacturing firm.

Ms. KAPTUR. Thank you very much.

Mr. Orszag.

Mr. ORSZAG. My father is a professor of applied mathematics.

Ms. KAPTUR. Thank you.

Secretary Geithner.

Secretary GEITHNER. My father was a Navy pilot and then worked for the Ford Foundation for 28 years.

Ms. KAPTUR. Thank you very much.

I find your testimony dismaying and out of touch. And I ask myself, how can we be so far apart in our views?

My top priority is putting people back to work. Your testimony doesn't even mention the total number of unemployed and underemployed and marginally attacked in our country. That number, for your information, is 25 million people. Only three paragraphs of your testimony address unemployment, three paragraphs, but you devote five pages to the deficit. I might offer, we have a deficit because we have unemployment. People aren't working.

On Page 3, astoundingly, you concede unemployment won't go down. You have no urgency.

In Ohio, unemployment is going up. Twenty-one of our 88 counties posted unemployment rates over 15 percent. We have more cities poor in this country than any other State now. Our food bank lines are growing longer. Twenty-five percent of our food banks and food shelters turned away people last year.

People are becoming desperate. I am their representative. I cannot politely sit and listen to this and not feel compassion for them in expecting some from you.

One of every ten Americans is now in foreclosure or 3 months behind in their payment. It's worse in Ohio.

Your workout programs are not working. I am not saying it's all your fault, but there should have been more traction at this point. People who caused this mess are doing just fine. In fact, JP Morgan Chase made profits of $11.76 billion last year. Wells Fargo made $8.49 billion. Jamie Diamond, the head of JP Morgan, he alone just in base compensation got $19.65 million. They are doing fine. The taxpayers bailed them out. My people are suffering. They are at the edge. Where is the urgency in your testimony?

Mr. Geithner, I have been trying to come to see you to tell you this. I have to take time with my colleagues to listen to all of this because I can't get an answer to come and talk about foreclosures and what we can do in the situation like Ohio. The five biggest banks are heavily involved in derivative trades, about $195 trillion as of last quarter. That is the same bunch that caused this mess in the first place. Does the Secretary have any idea of the quality nature of those risks or are we at risk for another collateralized mortgage scam?

Meanwhile, my people are falling off the edge. Are you willing to tax them on some of their profits and put that money into the programs to put our people back to work and solve these mortgage foreclosure problems?

Secretary GEITHNER. Absolutely. But let me just start by where you started. This President acted with enormous care and force and speed, something you would never see in this country or any other country around the world facing a crisis like this, and worked to enact in again remarkable speed the most powerful set of support for an economy like you have ever seen before. Those things were difficult to do. They were unpopular, but they were essential. And there is no path to unemployment improvement. There is no path to stability in house prices. There is no path to any basic improvements in the many challenges Americans face. They did not start with fixing a crisis and restoring growth.

Now, you are right that the housing is still a terrible crisis for many Americans and many people are still living with the fear of losing their home for things they are completely innocent of. People who were careful and responsible are suffering——

Ms. KAPTUR. Excuse me, sir. These companies are not doing the workout.

Secretary GEITHNER. And I want to—I want to respond quickly. I want to highlight, though, the following thing, which is that the program that we put in place has reached 1 million—more than 1 million Americans who are getting more than $500 a month now in lower mortgage service payments. We are going to do better than that. I agree with you, the banks are not doing good enough and we are going to put substantial pressure——

Ms. KAPTUR. It is pitiful, sir. It is pitiful. It is an embarrassment to the Nation.

Secretary GEITHNER. It is a million Americans and it is going to get better. But I want to end where you ended, which is to say that we have proposed a fee that would raise from the Nation's major banks $90 billion over 10 years that we can use to address the many problems we face as a country. If Congress joins us in passing that fee, and you can tell your constituents, you can tell the American people that they will not be exposed to a penny of losses for the actions taken by many of our large institutions that helped take us to the edge of this crisis. So I join you in supporting this and I hope we will see support from the Congress.

Chairman OBEY. Mr. Wolf.

Mr. WOLF. Thank you, Mr. Chairman.

Jim Cooper and I have a bill H.R. 1557, the SAFE Commission, that puts everything on the table—Medicare, Medicaid, Social Security, and tax policy. And you all opposed it. Only on that last day did the President come out on that Saturday where he supported Conrad-Gregg. Had you put the emphasis of the administration and your lobbying effort behind it you could have passed our bill in the Senate and it would have passed in the House.

Your Fiscal Commission is not authentically bipartisan and that troubles me. It's the only game in town but it troubles me.

Secondly, you do not mandate a vote. Our bill used the BRAC Commission. We mandated a vote. And with what we are going through on this health care thing, deeming things like that, I worry that we may never get there.

Thirdly, you do not involve the American people. The Cooper-Wolf bill requires there be public hearings around the country to listen to the American people. That is very important.

Lastly, your Commission's recommendations, if they ever come up for a vote, will be voted on by men and women in a lame-duck session with probably 50, 60, 70 Members who are looking for jobs on K Street. Their faith will not be with the American people.

So two questions: One, will the administration commit to holding town hall meetings across the country to listen to the American people? And secondly will you revise the order and allow additional time for the Commission to work and put the bill before the 112th Congress whereby we can have Members of Congress who have been elected to listen and have transparency? Two questions.

Director ORSZAG. Congressman, if I could comment. First, with regard to public hearings, my understanding is the co-chairs of that bipartisan commission—I want to come back to that point—Allen Simpson and Erskine Bowles intend to have involvement of the public; so it is not just the administration, it is the co-chairs who will be determining the activities of the Commission. Second, with regard to bipartisanship, do not forget that in order to get a recommendation—I think this is the key question—you need to get 14 out of those 18 members; so you need a significant share of the Republican appointees also. I think that is the key question. Will the Commission come together and reach a bipartisan recommendation? Because if that is the case, both Senator Reid, who has promised to bring a bill directly to the floor using a rule 14, and Speaker Pelosi have made commitments about the vote.

I think the question is not whether it is brought to a vote in the Congress but the first step is to make sure we get a solid recommendation out of the Commission which will require bipartisanship in that Commission.

Mr. WOLF. What about the lame-duck session?

Mr. ORSZAG. Well, on the one hand we have been hearing about the urgency of the——

Mr. WOLF. That is 1 month. Come on now. One month. That is different. Do you favor, though, voting with people who have been elected rather than a group of men and women who are looking for jobs downtown to be lobbyists? That is the question. Would you then say we could vote in the new session rather than in December of this year?

Mr. ORSZAG. Congressman, we have put forward what we believe is the best path forward here. And the reason is we face a very significant fiscal problem that is not a problem right now, but we have to get ahead of it before it becomes a crisis, and we believe this is the right way forward.

Mr. WOLF. Mr. Chairman, I think that it should have been more bipartisan. That would have had the confidence of the American——

Mr. ORSZAG. How so, sir?

Mr. WOLF. Because the President got six appointments. He got six; so it totally is not. It is skewered that way and that is just the reality of it.

Secondly, there ought to be a mandate whereby the American people can know how it will be brought up. Will it be brought up in the sunshine? Thirdly, there must be an outreach all over the country where the American people can tell you and us what they really believe. And, lastly, I do not believe and I don't think you should either that it should be voted on by a Congress loaded up with people who are leaving to look for jobs downtown as lobbyists.

With that, I yield back my time.

Chairman OBEY. Mrs. Lowey.

Mrs. LOWEY. Thank you and thank you, ladies and gentlemen, for appearing before us. I know several of you have mentioned loans to small business, and I have legislation as well. However, before I get to my question I would be most appreciative if you could provide some specific information regarding the loans to small businesses and if you would like I would be particularly appreciative if you could provide them for New York.

This is the constant complaint over and over again. In fact, I have a couple of small businesses that are existing on six and seven credit cards. So I think this is essential. We are doing a lot of talk. I have legislation. But I would like some specifics regarding New York.

Now, in particular as a former—I guess you still have a home. As a constituent, Mr. Geithner, the ultimate minimum tax is a big issue in my district. In fact, we are among the top in the number of taxpayers that are hit by the alternate minimum tax. We know that repealing the AMT completely would have a tremendous impact on tax revenue but Congressman Israel and I have worked on legislation which would increase the exemption under the AMT to $100,000 for married taxpayers filing joint tax returns and to $75,000 for unmarried taxpayers as well as deducting State and local property taxes from the AMT and indexing it to inflation.

If any of you could elaborate on the President's position with regard to the AMT and has a determination been made on how much an AMT revenue is necessary for the Federal Government to continue collecting. I would appreciate your comments.

Secretary GEITHNER. On your first question, I am happy to try to make sure we can provide some data to you on what is happening in lending in your district and your State and am happy to work with you on your specific bill for how we address those problems. Again, we think the most important thing to do is make sure the SBA can do its job with a little bit more force and to make sure small community banks that commit to expand lending to small businesses can get capital from the government at reasonable rates. Those would be very helpful alongside the tax measures that the President has proposed. We think that is a very good strong package in this area.

Mrs. LOWEY. Is there any progress now——

Secretary GEITHNER. Again, the best measure to what is happening with lending is really the price of a loan. And almost every measure of a price of loan to buy a house, to buy a car, to send your kids to college, what a municipal government pays to borrow, large and small businesses, the price of lending has fallen very dramatically. That is encouraging. But again, for small banks across the country and for businesses who were unlucky in their choice of a bank it is still very, very difficult.

On your proposal on the AMT reform, again happy to work with you on that proposal. The President has laid out a way to make sure that millions of Americans are not caught up in the AMT unnecessarily and doing that in a way that it's fiscally responsible still. As always, we have got to balance the concern you expressed with the basic concern we all share, which is we need to make sure we are doing things in a way that support growth, are fair, and are fiscally responsible.

Ms. ROMER. Can I just add one point here, which is through the Recovery Act, some 42,000 loans have been made to small businesses totaling about $20 billion. So I think that has actually been just incredibly important to helping maintain them through this very important time. I also just want to reemphasize the urgency that we all feel about our jobs——

Chairman OBEY. Will you repeat those numbers?

Ms. ROMER. It is $42,000 in loans to small businesses and $20 billion.

Mrs. LOWEY. If you could provide that to us in writing and hopefully regionally based because I don't hear that.

Ms. ROMER. We will work with the Small Business Association to get that because it is absolutely essential.

But I was going to say the urgency is absolutely enormous. I can tell you that every single time we meet with the President, no matter what you tell him his question is what does that mean for jobs? And one of the big things we have been thinking about is small businesses because they are a job creator. That is why we have proposed zero capital gains for small businesses, health care reform, making it be particularly helpful and supportive of small businesses, when we are thinking about tax credits. All of those things are for small businesses because they are essential to job creation.

Mrs. LOWEY. Thank you, Mr. Chairman.

Chairman OBEY. Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Chairman.

Let me read a statement. This is the President of the United States February 5, 2009, talking about the stimulus program. This plan will create or save over 3 million jobs, February 5, 2009. February 9, 2010, the Bureau of Labor Statistics says that the stimulus program that there are now 24 percent, fewer job openings in the private sector nearly 3 million jobs have been lost. Hiring in the private sector has decreased by 9 percent and unemployment has gone from under 8 percent to nearly 10 percent.

Here's a statement by majority whip Mr. Clyburn that the stimulus program will create 3.5 million jobs, February 13, 2009. A Bureau of Labor Statistics, February 5, 2010, national deficit is now $12.5 trillion with—I guess that would be the debt—with over 2.8 million jobs lost. Speaker Pelosi said that if we do not pass it, each month 500,000 Americans will lose their jobs. I think that that is what happened after we did pass it. Yet you are telling me the stimulus program is good.

I would suggest to you that more people have experienced Elvis sightings than have seen jobs created by the stimulus program and if you guys think it is working, I suggest you go out to the Main Street of America and talk with the people. The economy is showing signs of recovery despite the stimulus program, despite irresponsible spending, despite misguided and excessive regulatory burdens. The private sector is recovering because of the business cycle. If we really want to help create jobs we have got to get away from big business and big government solutions for everything. We need targeted, regulatory and tax relief for small businesses, and we need to help community banks, not the big boys on Wall Street who are always going to get their bailouts.

I want to talk to you a little bit about the deficit because I keep hearing how horrible everything was that this administration inherited. From 1995 to 2007, the Republican Party, which spent too much money, the Republican deficits accumulated at $1.2 trillion, and in 2009 the deficit alone was $1.4 trillion. 12 years of Republican majority rule in the House, add 3 years of Democrat majority rule in the House, and you have got a deficit bigger than 12 years accumulated. But that is not the end of it because you have got another deficit this year projected at $1.6 trillion followed by $1.3 trillion the next year. And some of those programs which the President supported when he was in the Senate—a stimulus program in May of 2008, $168 billion; July of 2008, a Fannie Mae bailout, $200 billion, November of 2008, a $700 billion TARP program. And then as President, January 2009, $410 billion omnibus spending bill; February of 2009, $787 billion stimulus bill.

And then not to mention Federal Reserve, 29 billion in March of '08 for Bear Stearns; September of 2008, $84 billion for AIG, now up to $140 billion; and now a government takeover of health care that is about a trillion dollars when all is said and done, and we are talking about a spending freeze. That is like taking a squirt gun to a forest fire. It is not going to do the trick.

I guess my question to you would be with 37 percent of our revenues, of our spending—37 percent revenues plus deficit, 37 percent is deficit spending, if you knowing what you know now had to do it again, would you pass the exact same stimulus program 1 year ago or are you that pleased with it down there at 1600 Pennsylvania Avenue that we think is perfect, or would you go back and say I would have done this a little bit differently, and if so what would you have done?

Ms. ROMER. Let me at least start. I think the most important thing to understand is the incredible downward trajectory that this economy was on. I just have to remind you at this time last year we were losing more than 700,000 jobs a month. This was an economy that was headed down incredibly fast. The Recovery Act has absolutely played a key role in turning that around, and inevitably where you see it first is it slows the rate of job loss before it finally adds to positive job gains.

You ask how do you know it is working? Well, I can certainly give you our estimates. We certainly can talk about all of the other analysts, including the Congressional Budget Office, that say it is saving and creating jobs, but if you just go out into America you will find——

Mr. KINGSTON. Reclaiming my time, I actually do go out to America and that is where I get a lot of information. No one believes it is working.

Chairman OBEY. The time has expired. The gentleman controls his own time and the gentleman's time has expired. So I don't think it is appropriate to have a witness continue on the gentleman's time.

Mr. Serrano.

Mr. SERRANO. Thank you, Mr. Chairman.

We are here today trying to figure out how to go forward and bring jobs back into our economy and bring our country to where it should be, but we should not forget how we got here and one of the things that got us here was the lack of oversight and the inaction of Federal agencies to protect the consumer to protect the investor.

With that in mind, there are two bills, one that went through the House by Congressman Frank and then another one by Senator Dodd that speak to a consumer financial protection agency. The big difference as many of us see it is that Senator Dodd's is within the Federal Reserve and the other one is an independent agency. Chairman Frank himself was quoted as saying that putting it in the Fed is a bad joke, and other Senators have joined in and talked about the abysmal record the Fed has had. So if you had your way, should this be an independent agency or should it be part of the Fed and why?

Secretary GEITHNER. Congressman, you are raising a very important question. The President, when he proposed a set of comprehensive financial reforms, proposed the establishment of an independent stand-alone agency, and the judgment we reached was we looked at the record of the people charged with enforcing consumer protection and they did not do a good enough job, and we thought it was important to make sure the Federal Reserve had the ability to focus not just on monetary policy, but on reducing future financial crises, and we wanted it to have a narrower set of responsibilities and clear authority and accountability for those pretty daunting challenges on their own.

We wanted to have a new agency that woke up every day and worried about one thing, which is how to protect consumers. Now the critical thing, and this is really the most important thing, is that this agency has independent budget authority, is led by somebody appointed by the President, confirmed by the Congress. And this is the critical thing: It has the ability to write rules that apply across the system from banks to petty lenders, mortgage brokers to check cashers. And that is not enough. It has to have the ability to enforce those rules across the financial system.

So we are going to keep working very hard as this bill moves through the Congress to make sure it comes out of the process at the end of the day in a way that has strong independence on these four key criteria—independently led, independent budget authority, capacity to write rules across the system and enforce those rules—because we don't want to see an outcome where you see parts of the system left out, left out of the rules of the game with no adequate enforcement on those entities.

Mr. SERRANO. Well, we thank you for that. And just as a little side note, the years that I have been on this committee, I have never seen happen what happened a couple years ago where agencies in charge of overseeing the protection of the consumers were actually being asked by members of the subcommittee how much more money they needed and they were being told no, it is fine we don't want any more money. And then we saw the Bernie Madoff scandal, and we realized that they actually did need to do more but they didn't want to and they didn't even want money to do more and it may be the first time in the history of this committee that the members were saying we can get you more money and the agency was saying no, we don't want any more money. And that sent a signal that something was wrong.

So I hope it is an independent agency and I hope the administration works hard to make sure that it is an independent agency.

Secretary GEITHNER. It is just one example. You know, it is not just on the consumer side. Investor protections, need stronger cops, better deterrence to protect Americans from fraud and abuse, from manipulation of markets, and we need much stronger tools to constrain risk taking in the financial system, make sure we don't have future AIGs, make sure that if the country ever again faces the risk of institutions managing themselves at the edge of the abyss, and if the government has to step in to protect the economy, we don't have to face—have the taxpayers face any risk of loss in that context. But I think we are getting closer to a very strong package of reforms. What the House passed and what Senator Dodd has proposed is the most sweeping set of reforms for our financial system since the Great Depression. They are necessary. We have taken a lot of careful time to get here but we want to move forward now to put these reforms in place.

Mr. SERRANO. Thank you. Thank you, Mr. Chairman.

Chairman OBEY. One quick response from you, Mr. Geithner. How much money has this administration provided by way of bailouts to the big banks other than TARP?

Secretary GEITHNER. Thank you for raising that question, Mr. Chairman. We have been able to restore stability to this financial system at a fraction of the resources you authorized us, at much lower cost than anybody anticipated. I will just give you a few facts.

Since we have came into office, we have written checks to banks for only $7 billion. None of those dollars went to major financial institutions, major banks. We have got $170 billion back from the Nation's larger banks by forcing them to go out and raise private capital to replace the taxpayers' money. When we came into office, the initial estimates of how much it would cost to solve this crisis were in the range of $500 billion. Today those estimates are down below $100 billion and if Congress passes its financial fee, the taxpayer will not be exposed to a penny of loss. We worked very hard, very effectively to make sure we got that—those resources back from the major banks so we had more resources available to meet the many challenges this country faces. And we have achieved much more improvement much more quickly, lowering borrowing costs for all Americans at much, much lower cost than anybody ever anticipated. 95 percent of the commitments we made since we came into office went to housing, small business mitigation.

Chairman OBEY. Thank you. Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. Thank you, Mr. Chairman.

Like Ms. Kaptur, I would like to put a more human face on this discussion and let me say, Chairman Romer, one thing you can be sure of, whether we are Republicans or Democrats, we have been out there listening to our constituents. We have our ear to the ground. And while New Jersey may not be Ohio with that high rate of unemployment, our unemployment rate in New Jersey is 10.1 percent. The real unemployment rate is probably close to 17 percent. It goes across blue collar, white collar New Jerseyans, and those that represent States around here take this whole issue very, very personally.

So from a New Jersey perspective, tens of thousands of New Jerseyans are out of work. They have a feeling we don't make anything in this country anymore. So there is not a lot of consumer confidence. And by and large—I don't mean this as a political statement—they see the economic stimulus package as sort of a colossal waste of money, huge expenditure, all borrowing. I know that has a political flavor to it. And they say what are you doing down there? Well, Mr. Pastor and I are on the Energy and Water Subcommittee.

As of Monday, the Department of Energy has spent $2.9 billion of the $37 billion that was provided to it in the Stimulus Act more than a year ago. That is less than 8 percent. In other words, 92 percent of the Recovery Act funding provided to the Department has yet to hit the street. Three programs, Energy Efficiency and Renewable Energy, Office of Electricity and Fossil Energy amount for nearly $24 billion of unspent stimulus dollars, nearly equal amount appropriated to the entire Department of Energy in fiscal year 2010. Let me repeat that. Accounting for nearly $24 billion of unspent stimulus dollars nearly equal the amount appropriated to the entire Department of Energy.

What is going on?

Ms. ROMER. Let me just very quickly—what I was trying to answer before, one of the best ways to see what the Recovery Act is doing is in the projects that are actually started. So we do have some 12,000 transportation projects going. I have a number here, almost 3,000 projects at military bases of the——

Mr. FRELINGHUYSEN. Let's talk about one of the major initiatives of the administration, which is clean energy, clean jobs. What is happening in the bureaucracy here? I know there is a problem with loan guarantees and things of that nature. Have we not hired enough people to handle all of this money or what is going on?

Mr. ORSZAG. Congressman, if I could jump in here, and I am sure you either have had or will have the opportunity to talk to Secretary Chu in detail about the Department of Energy's activities, but I would note a few things. First, it takes time to get new programs up and running. Second, out of the $36 billion, more than $25 billion has been obligated. So while the money has not actually been distributed, it has been—the recipients et cetera have been identified and the money is now starting to flow. So in a lot of cases, what was involved here was new activities or new programs. The Department of Energy wanted to make sure that it was done right so that we didn't have problems either with fraud or with improper payments. That took a bit of time, but the money is now—the system is now operating and working.

And let me take this opportunity—there has been some discussion of the Recovery Act to point out, and I think we need to attribute the Vice President's activities and knock on wood, but to date, there have not been the kinds of stories about substantial fraud and substantial abuse that one may have expected given the activity this large. And I credit that to the aggressive efforts the Vice President has taken to speak to governors, to speak to mayors, to speak to recipients to say don't do this.

Mr. FRELINGHUYSEN. With all due respect you might take a look at the Department of Energy's IG report, some of the concerns, and that is an independent entity. First of all, a lot of money is going out to the States as you are aware of. I understand the difference between outlays and so forth, obligations, but a lot of money is going out to the States. I think only 9 percent of the money that has been going out to the States has been spent. So people back home are wondering what is going on here besides all the money being borrowed, they are wondering when are they actually going to see private sector jobs. And that is another issue here is what are we doing to concentrate on private sector jobs? I understand you want 600,000 public sector jobs, but people back home want to actually work for themselves, not for the government.

Thank you, Mr. Chairman.

Chairman OBEY. Ten seconds to respond.

Ms. ROMER. Actually I have just one fact to add, which is if you look at the second quarterly report on the Recovery Act done by the Council of Economic Advisers, we actually looked at the clean energy sector and money that has been spent in that area, and we identified almost 52,000 clean energy jobs as of the 4th quarter of 2009. So it is certainly there. It is not nearly as big as it is going to be eventually, but it certainly is as Peter said starting.

Chairman OBEY. Let me simply say to members of the committee, I don't think it is fair for members to run out the clock on their questions leaving the witnesses no time to respond. If that happens, I will have to give the witnesses a minute and a half to respond even if the clock has run out. That will mean that some members of the committee will not have an opportunity to ask questions. So I hope we can try to avoid that.

Ms. DeLauro.

Ms. DELAURO. Thank you, Mr. Chairman.

Dr. Romer, in a joint statement you mentioned, in your statement, significant infrastructure investments we have made, particularly with the Recovery Act through formula funding, Build America bonds, and so on. Yet according to the American Society of Civil Engineers, we face a $2.2 trillion infrastructure investment deficit that current Federal programs simply cannot make up. The funding we have provided will help our recovery but it won't be enough to move forward for long-term economic growth. This past weekend, The New York Times did a piece on the huge costs involved in revamping the Nation's sewers. According to an EPA study, we will need approximately $335 billion to simply maintain the Nation's tap water systems in the coming decades.

I believe a national infrastructure bank that leverages significant private capital to make merit-based investments in infrastructure—transportation, water, energy, broadband—that provide clear economic, environmental and social benefits can help create long-term job creation and economic growth.

My colleague from New Jersey talked about our not building anything. I believe that this is a way for us to build and lay a foundation for sustainable growth in this country. Laura Tyson and the others on the President's Economic Recovery Advisory Board made a case for a bank in a Wall Street Journal op-ed earlier this year. What are your thoughts on the role of a national infrastructure bank, what role they can play in long-term economic growth and technological development, a national infrastructure policy that keeps us globally competitive?

Ms. ROMER. I think the first thing I want to say is I want to echo what my colleagues have said, what you have said, which is infrastructure investment is a win-win. It is good for job creation right now in an economy that obviously is desperately in need of it. It is good for long-term growth; right? Revamping our infrastructure. It is capital and that is something that helps us to be more productive going forward in the future. It raises standards of living. I also want to strongly endorse the importance of merit-based infrastructure positions. I think one of the real success stories in the Recovery Act is the infrastructure spending at the Department of Transportation through the TIGER Program; precisely because they are merit based; so I think this is absolutely a very good way to go forward.

Certainly proposals for an infrastructure bank are another way to continue this process to leverage private sector funds, and certainly something that is very worthy of consideration.

Mr. ORSZAG. Congressman, I would just add, as you know we have had many discussions about this, and we have stepped forward with a national infrastructure fund at the beginning which I know does not go——

Ms. DELAURO. With all due respect, $4 billion in the Department of Transportation is not a national infrastructure development bank under the Treasury Department that has the ability to borrow in the capital markets so we can leverage private funds. We are not going to get serious investment for the long-term future of this country until we do what the Europeans have done in setting up a European Investment Bank.

Mr. ORSZAG. I am not sure that was a question but——

Ms. DELAURO. Well, but I want to know why we have moved off of the—I want to know why we have moved away from the concept of a national infrastructure development bank.

Mr. ORSZAG. I think it is something we will continue to explore and discuss with you and we thought that in the meanwhile, having an infrastructure fund at $4 billion would be a first step in that direction albeit not the full approach that you and others have put forward.

Ms. DELAURO. If I have any time left, I would just say to you that I support the transportation efforts. I think they are laudable. I think we move in that direction. But if we are going to build, if we are going to be at the cutting edge of technology, then we have got to look at water systems, energy, environment, broadband, and telecommunications.

This is a country that was built bricks and mortar on fiber optics, and we are going backwards in this regard rather than forward, and I continue to talk about it, but there is enough support in this institution but outside this institution, whether it is the U.S. Chamber or whether it is unions or whether it is bondholders and folks in the financial interests who believe that this is a way for private investment, not going to Europe but private investment, being in the United States to build this country.

Thank you, Mr. Chairman.

Secretary GEITHNER. Congressman, could I just say I want to say you are right on the imperative and we agree that a bank that is well-designed could play a useful role in meeting those needs. I am happy to work with you and your colleagues to help to design that.

Ms. DELAURO. I appreciate that. Thank you.

Chairman OBEY. Mr. Tiahrt.

Mr. TIAHRT. Thank you, Mr. Chairman.

This year we are already $655 billion in debt for the first 5 months, if I understand it correctly, and we really are making projections this year—only have enough to cover the mandatory spending. We have to borrow for everything over that. So we are going to increase our debt once again this year further. You made a comment earlier about helping us dig out of this hole. When you are in a hole, stop digging might be my first suggestion. But I do think we have a creative opportunity to help reduce the costs and increase jobs.

There is an underlying premise here that the government can create wealth. I don't believe that. I don't think the government can create wealth. Only the private sector creates wealth. And then a byproduct of doing that is creating jobs. So I am advocating for creating jobs. Capital is also a coward. It only goes where it is welcome. If taxes are too high, if regulations are too onerous, if we have too many costs associated driven by Federal policy whether it is energy or litigation policy, we can't create jobs, we can't create the wealth and the byproduct of the jobs.

Last year the wisdom of this committee was to defund EPA from regulating and taxing livestock emissions. The proposed regulations and taxes were greater than the profit of margin for cattle production in America, and in Kansas we would feel that very deeply. That production would have gone south of the border where capital is more welcome. And, again, it was the wisdom of this committee to strip the funding.

Now we are faced with challenges of cap and trade being driven by regulation rather than by legislation, and I think there is a great danger in that it will drive up costs for all Americans either in the way we transport products, and everything we buy is transported, in the cost of manufacturing things, and we have to make things. We can't survive as a service economy. We have to make things. So these regulations are continuing to grow. And I am just using cap and trade as an example but it is every regulation. I believe all regulations should go through a very simple formula. The benefit should exceed the cost of implementation.

If the benefit received by the American people exceeds the cost of implementation, then we have a regulation that we ought to consider as being proposed and administered. But what we are seeing is far too many regulations driving up the cost of products and forcing jobs overseas. Even for ethanol now, which we have tried to grow as an industry, proposed regulations in the EPA on starch-based ethanol and the land use combination with it is, in effect, going to drive ethanol production out of our country and we will only be able to procure ethanol again because of regulations from Brazil basically because they make it from sugarcane, which is not starch-based.

So we have this big challenge facing us because of the cost in business driving our jobs overseas. To help us create wealth in this country, I would advocate that we freeze our regulations on this fiscal year and next fiscal year and run an audit. Audit them by saying the benefit has to exceed the cost otherwise we are going to repeal or reform the regulation. Would you advocate freezing regulations until we can bring some sanity and common sense into them?

Mr. ORSZAG. If I could comment on this briefly, first let me wholeheartedly agree with regard to climate change and the efforts to address, it would be far better to address through legislation than through regulation. Second—and we can provide this information to you—in terms of the regulations that were adopted during the first year of the Obama administration, the record shows that the benefits far exceeded the costs to a much larger degree than during the first year of the previous two administrations, and we can provide that information to you also.

Third, there is an effort to review existing regulations through the Office of Information and Regulatory Affairs, and we look forward to working with you on that. I don't know that a freeze is necessary as opposed to continued emphasis on regulations, whose benefits exceed their costs and an effort to make sure that is true not only with regard to new regulations but existing ones.

Secretary GEITHNER. Could I add two things? Go ahead. I am sorry.

Mr. TIAHRT. I just wanted to mention if we don't make it more appealing to attract jobs here we are going to continue to offshore jobs. And this is a huge part of it. Every time we hire somebody—we are going to hire 153,000 people this year. They have got to do something. They are going to write regulations. We have got to slow that process down.

Secretary GEITHNER. I agree. Mr. Chairman, could I just say you are absolutely right to remind people that what matters for our future is our capacity to create an environment in the United States if you want to invest in or support innovation. The test of recovery and expansion for us would be what if we see a durable recovery led by private sector investment and job creation. You are absolutely right. So we have to be careful about what happens to the broader investment environment in that context. But it is very important for people to recognize that the principal uncertainty businesses face today is whether we are going to have a growing economy creating growing demand for their products, and because of the damage caused by the recession, we still need to continue to work to reinforce this expansion carefully, responsibly, in a fiscally responsible way to make sure we have an economy that is growing so these businesses can start to invest and grow again.

And it is very important as part of that that we provide some clarity on these key reforms that are still working its way through the Congress. It is obviously very important on health care. It is very important on financial reform. Businesses have a huge stake in making sure we have clarity and what the rules of the game are going to be going forward in these areas which are going to be so important to the American economy in the future.

Chairman OBEY. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. I want to thank the three witnesses for the extraordinary sacrifice that they have accepted by going into the public sector versus what they could be making in the private sector. It is at the local level of government where the rubber hits the road in terms of the public sector's direct impact upon people's quality of life.

Municipalities across the country have benefited from the stimulus bill. They haven't always given the Federal Government credit, but it has resulted in their ability to retain hundreds of thousands of teachers, public police, firefighters, public works people and the like without having to raise taxes. But the stimulus bill is going to be exhausted pretty much by the end of next year. Unfortunately, real estate values which are the principal source of local revenue to pay for education and public safety and the like are not going to come back next year, or even for the next several years.

So at the local level of government there will be very substantial retrenchment in the quantity and quality of services and probably a substantial increase in property taxes on those who are able to retain their homes. I would like for you to give us some insight on how you feel we can deal with that condition that really is just over the horizon.

Ms. ROMER. Let me address that because I couldn't agree with you more that the conditions in State and local budgets have been absolutely terrible because of the recession and are anticipated to remain very, very bad going forward. I think that we have talked about a lot about the Recovery Act, but one of the great success stories of the Recovery Act is the aid for State and local governments because it really has had a direct impact on State services and on keeping teachers, firefighters, first responders employed. It has been absolutely essential. And I think something that we haven't discussed much, you know, in thinking about what the recovery act did, part of the transparency is to have the recipient reporting.

So about a third of the Recovery Act funds the recipients have to file a report every quarter with the government to say what they have done with it. And I think it is from the State fiscal relief that you see some of the very largest numbers. I think the first recipient report showed that some 300,000 jobs were saved or created through these funds. So it is something that the President is looking forward, thinking about what else we need to do to keep our economy growing, to try to put people back to work, and State and local fiscal relief is absolutely essential.

Mr. MORAN. If I could just followup, the Federal Government, for example, in the role of education can do little more than fill gaps or build capacity. The problem is that the basic foundation of our public school system is going to be substantially threatened by the loss of revenue coming into the municipalities. Do you have any thoughts about that, how we can deal with that?

Secretary GEITHNER. Again, I would just say, and the President believes this very strongly, there is a very strong case for providing additional assistance not just to States but that reaches local government on a significant scale going forward for exactly the reasons you have said. And programs like Build America bonds programs, things like that that can help reduce the cost of borrowing for States has been a very successful program, but we think there is a very good economic case still providing more reinforcement that reaches down to the local level of government so they can maintain critical service as we still go through what is going to be still a very long period of repair and recovery to this financial crisis.

Mr. MORAN. Thank you very much.

Chairman OBEY. Mr. Latham.

Mr. LATHAM. Thank you very much, Mr. Chairman. And welcome to the panel.

A lot of people here have talked about jobs as being the number one issue and I certainly believe that that is true. I come from a small family business background, and it is of concern to me that there is virtually nobody in the administration who has ever had any real business background, and understands what small businesses are going through today. As I talk to small business people in my district and my local bankers, it is the fear of what we are doing to them here that is causing them to be frozen in place today.

You talk to the local bank on Main Street—it has plenty of liquidity. The problem is that oftentimes the examiners coming in the back door are saying you cannot make this kind of loan, you have got to cut this line of credit in half, so their hands are tied. And if you are a small business person today in a subchapter S family business, you are scared to death because you look at next year.

Your marginal tax rates are going to go up. The cost of whatever happens with health care, will cause tremendous new mandates, new costs per employee. You look at cap and trade which means the potential in our part of the country will be to increase utility rates by 20, 25 percent.

So there is tremendous uncertainty out there. The capital gains tax rates are going to go up next year if you do invest. So if you are a small business person like my family and most people that I know, you are scared to death today and you are frozen in place because of what the agenda here is going to do to a small business, and that is about 70 percent of the jobs out there. If we are going to get this economy going, we are going to have to get small businesses moving again.

What do I say to a small business person today who is scared to death of the agenda that is coming out of Washington?

Secretary GEITHNER. Let me just start, but I think my colleagues would like to follow up. First, I want to agree with what you said of what is happening to on the credit side because you are right to emphasize that a lot of banks are—have a lot of capital, a very strong position, and they are seeing what they see in any recession, which is after a period where supervision was maybe a little too soft in some areas people tend to overcorrect. And part of what the banks are facing is what they perceive to be unjustified additional supervisory pressure to tighten up on lending standards in a way that hurts. You are right about that, I think. But part of the solution is to try to mitigate that but also to make sure they have capital.

Now, it is very important to recognize that we have proposed in this budget a series of very powerful tax cuts for small businesses, zero capital gains rate for investing in small businesses, to extend and expand tax cuts that go to 97 percent of businesses across the country, extend and expand expensing bonus appreciation. These are powerful incentives for investment by small businesses. We think that combination of tax measures with additional support on the credit side would be very constructive. But I also agree with you that providing clarity of where these big make major reform efforts are going to end up on the financial side because that is important to credit as well as on health and energy would be good for confidence, would be good for certainty.

People want to know what are the rules of the game I need to plan for, and it is better for the country for us to resolve for them how we are going to put those reforms in place. But again, I would emphasize the things we can do right now which are very important are very substantial additional packages of tax incentives for small businesses and some powerful measures to help make sure that those that are viable businesses or are growing can get access to the credit they need.

Ms. ROMER. Can I just jump in on small businesses and health care because the Council of Economic Advisers actually did a report of the legislation. I think this is one of the big success stories of how the legislation has been crafted to help small businesses. And just let me give you some facts: $40 billion of tax credits will go to small businesses to help them provide health insurance for their workers. By having an insurance exchange, the Congressional Budget Office says that small businesses will be able to pay some—probably 4 percent less for the insurance that they provide for their workers and that we have explicitly not put any employer responsibility provisions on firms smaller than 50 employees. That is 96 percent of all the firms in the economy. So this is certainly an issue that Congress has heard and has crafted the legislation to make sure that it helps small businesses, not hurt them.

Mr. LATHAM. I think it is very unfortunate that—the banks on Main Street are not the ones that caused the problems we have, and yet they are the ones being penalized today; I would submit that people are scared to death of what the agenda is in Washington and they are frozen in place because of that. Thank you, Mr. Chairman.

Chairman OBEY. Twenty seconds to respond.

Secretary GEITHNER. Well, again I would just take the other side of it. If you sat here and did nothing, we would not be helping restore confidence in businesses across the country because they would be more uncertain about how fast the economy is going to grow. They would be living with unsustainable rate of grow in health care costs that are killing them. They would deal with a financial system that hurt them terribly. And so if you care about business confidence and you care about investment, I think we all recognize the government has a responsibility not to just provide more reinforcement for this expansion, but to provide some clarity about how we as a country are going to address the burden posed by the health care system, the confusing mix of regulations and incentives for how we use energy, and a financial system that did a terrible job of meeting the credit needs of working families and businesses across the country.

And the people suffering through the financial crisis are businesses and families that had nothing to do with the crisis. So I agree with you about the imperative, but I think if you care about confidence and certainty, you want to care about bringing these reforms down to Earth so we can have a stronger economy in the future.

Chairman OBEY. Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman.

Mr. Secretary, in your original statement, you referenced that one of the key requirements for a robust economy—I am going to return to the comments and support the comments made by the gentlewoman from Connecticut here, that the key requirement for a robust economy was infrastructure, and you then listed broadband and water, sewer, and power grids and energy modernization and transportation. I think you could well have included as well education and housing.

I chair the Transportation and HUD Subcommittee of Appropriations, and I strongly agree with that premise. In fiscal 2010, you proposed an infrastructure bank which was $5 billion, but I don't remember if there was any legislation actually proposed to create that infrastructure bank. We did create, however, the High-Speed Innercity Rail Program and the TIGER Grant Program with moneys that could arguably come from that but only in transportation.

In fiscal 2011, you proposed the infrastructure fund, somewhat like a bank, I guess. And again it is, you know, no legislation, and again, don't know whether it is narrowly transportation or something larger. Now, it seems it clear to me that we need an investment level that is at least in order of magnitude greater than the

$5 billion in the 1 year or $4 billion in the 2nd year in order to deal with the infrastructure needs across a broad range of areas and I am just curious to know whether—whether you have any intention in this session of proposing a broad-based kind of a fund and bank, much broader than this, that would include revenues that raised and leveraged across the whole of our economy essentially.

It is somewhat in proportion to the impacts that the infrastructure you are talking about would have on the private, the public, the commerce, commercial, and business segments of that economy.

Secretary GEITHNER. Congressman, first, we are proposing substantial additional investments in infrastructure across a whole range of what we think are very high return parts of the economy as a whole. We are examining how best to design a bank or fund that would help leverage private sector dollars, help leverage the taxpayers' dollars, and make sure that we are allocating those scarce resources to where they can have the biggest potential effect on projects that again having high economic returns.

Again, we are taking a careful look on what—what would be best designed. I am happy to work with your colleagues and a lot people have different views on how to do this. We think there is a good case for, again, a substantial increase in investment over time in infrastructure. We need to do it in a fiscally responsible way, but we think there is a good case for a bank as part of the mix.

Mr. OLVER. Do you agree with me that the needs in these areas are at least in order of magnitude larger than $5 billion or $4 billion?

Secretary GEITHNER. I do—I think the broad needs we face as a country in infrastructure are very substantial, obviously not captured by that $4 billion or $5 billion number. But again, if you look at the scale of resources the President has proposed to put into infrastructure, it is several multiples of that basic number. Again, we think there is a good case for looking at a bank or a fund as part of that broader mix as a complement to the existing mechanisms that this committee and other committees have for allocating money to infrastructure. I am happy to work with you on what the best design is.

Chairman OBEY. Mr. Aderholt.

Mr. ADERHOLT. Thank you, Mr. Chairman. The Constellation program takes directly or indirectly 10,000 to 20,000 jobs if you include the suppliers. The Aries-1 was Time Magazine's invention of the year last year. The Augustine Commission's figures were—I think most people would say were very debatable. And some folks think that Aries-1 could be ready to go by 2014 and not 2017. Of course, as you have seen, while the testimony has been given on the Hill, there is hardly any Member of the House or the Senate that has endorsed the new plan. And given the condition of the economy, I just want to throw out the idea that you think it might be at this time at least consider—at least to reconsider your plan to kill Constellation, to keep those real jobs which are work on real products, and then go gradually into the commercial aspects of space travel.

Mr. ORSZAG. Congressman, as you know, the President is going to be holding a summit in Florida in April on precisely this topic.

As you also know, the motivation behind the proposal is to allow the United States to return to the tradition of leapfrogging technologies and being at the cutting edge of space flight rather than simply returning to things that we have already done.

You also know Constellation is behind schedule and over budget. So all of those things are motivations for a new direction with a larger emphasis on cutting-edge research and development that will allow us to leapfrog new technologies that can allow more interesting and exciting space exploration but again, there is going to be an entire summit devoted to discussing this in more detail.

We believe that we are on the right path here, one that is supported by a wide variety of people, including, as you know, Buzz Aldrin and Sally Ride and others. But, again, we are going to have a summit where we can have a full discussion of precisely this topic.

Mr. ADERHOLT. Thank you, Mr. Chairman.

Chairman OBEY. Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman.

Mr. Orszag, I would like to begin with you, and I will be asking questions that perhaps you can answer with a "yes" or "no" or very succinctly.

When President Clinton left office, was there a surplus or a deficit?

Mr. ORSZAG. Surplus.

Mr. EDWARDS. When President George W. Bush left office, was there a surplus or a deficit?

Mr. ORSZAG. Deficit.

Mr. EDWARDS. Was the deficit that he left to President Obama to inherit estimated for fiscal year 2009 above $1 trillion?

Mr. ORSZAG. Yes, sir.

Mr. EDWARDS. Prior to that in American history, wasn't the largest deficit ever $292 billion in 1992?

Mr. ORSZAG. Yes. In nominal dollars.

Mr. EDWARDS. Okay. Is it correct that when President Bush took office, in 6 of those 8 years he was President, Republicans controlled the Congress, and that when he came into office, there was a projected surplus of $4.2 trillion for 2009 and, through fiscally irresponsible policies, many of which were pushed on a partisan basis by my Republican colleagues in Congress who I think had lost touch with their constituents back home, that $4.2 trillion surplus, didn't that turn into a $3.3 trillion deficit?

Mr. ORSZAG. There was a very substantial shift from projected surpluses to projected deficit.

Mr. EDWARDS. So a $7.5 trillion turnaround from projected surplus to actual deficit.

Mr. ORSZAG. A very significant shift. We can walk through the precise numbers, but trillions of dollars in shift.

Mr. EDWARDS. Unprecedented in American history. And while I am one who wants to work on a bipartisan basis to grow our economy and reduce our deficit, and while I am one who believes, frankly, our long-term deficits should be lower than the Obama administration has proposed, I must say, in all due respect to some of my colleagues, that it is a little trying to be getting sailing lessons from the captains of the economic Titanic.

You took the largest surpluses in American history and turned them into the largest deficits, took an administration where we were gaining 200,000-plus jobs a month and turned it into 8 years of an average of, I think, 20,000 jobs a month growth. And at the end of that administration, we were left with the largest, most serious recession in American history or at least since the Great Depression.

Let me ask you, Ms. Romer, what was the GDP drop on an annualized basis in the last quarter of 2008?

Ms. ROMER. It was well over 5 percent at an annual rate. It was 6.4 percent in the first quarter of 2009.

Mr. EDWARDS. The last quarter of the previous administration. What was the GDP growth in the last quarter of 2009, the last quarter of the first year of this administration?

Ms. ROMER. 5.9 percent.

Mr. EDWARDS. In the year 2008, did the S&P go up or down?

Ms. ROMER. It unquestionably went down.

Mr. EDWARDS. Was it approximately a 38 percent loss?

Ms. ROMER. That sounds about right.

Mr. EDWARDS. What did the S&P do in 2009?

Ms. ROMER. It certainly, after falling early in the year, then grew tremendously.

Mr. EDWARDS. In fact, it has actually gone up by over 62 percent since March 9th of 2009. Is that correct?

Ms. ROMER. Yes, indeed.

Mr. EDWARDS. Ms. Romer, what was the job loss in the last quarter of 2008 on a monthly basis?

Ms. ROMER. I think it was somewhat over 500,000.

Mr. EDWARDS. What was the job loss in the last quarter of 2009?

Ms. ROMER. It was less than 100,000.

Mr. EDWARDS. So what we basically have is an administration that inherited the deepest, most serious recession since the Great Depression, the largest deficits in American history that had been turned around from the largest surpluses in American history. And while there is a lot of pain out there—and Ms. Kaptur very, very passionately expressed that pain—at least the building blocks for bringing those jobs back have been put in place.

Now, what we have is Mr. Ryan, one of the leading voices of our Republican colleagues in Congress on the budget, the ranking member of the Budget Committee, laying out a roadmap for the future. I would say it is more like a U-turn to the past, the past failed policies that got us into this mess in the first place. As Yogi Berra said, it is kind of like deja vu all over again.

Mr. Orszag, you talked about the Ryan roadmap for the future. What would its impact be on the deficit?

Mr. ORSZAG. New estimates from the Tax Policy Center suggest that, because the proposal would significantly reduce revenue, that it would result in deficits by the end of this decade of 7 percent of GDP, significantly higher than under, for example, the Obama budget.

And that reflects quite regressive tax cuts. It is not just that the deficit is higher, it is also that you are exacerbating the opportunity gap that Chairman Obey spoke about.

Mr. EDWARDS. And it would end Medicare as we know it by turning it into a voucher program so 85-year-old widows can get a voucher to go negotiate with an insurance company what kind of health care policy they would get.

What would be the impact of the Ryan roadmap to the failed past on the wealthiest 1 percent of Americans?

Mr. ORSZAG. They would benefit from a very substantial tax cut.

Mr. EDWARDS. Okay. Thank you.

Chairman OBEY. The gentleman's time has expired.

Ms. Emerson.

Mrs. EMERSON. Thank you, Mr. Chairman.

Secretary Geithner, Director Orszag, Ms. Romer, thank you so much for being here today.

My question goes to Secretary Geithner. Since I didn't get to finish asking you questions last week, I will take advantage of your graciousness in being here again today.

You testified and you also mentioned today that the administration has awarded no new TARP funds to big banks and you have only provided $7 billion to the smaller banks. If that is the case, then why is it that you decided to extend the TARP?

Secretary GEITHNER. Excellent question.

Although we have been very successful in restoring a measure of stability to this financial system at a much lower cost than we expected, you can see in housing markets across the country, small businesses, challenges facing small community banks, commercial real estate markets, a lot of stress and damage still. And we thought it was very important to make sure we had the capacity this Congress provided us to make sure we are supporting targeted, well-designed additional programs, again, to help people who can stay in their home stay in their home, help small business get access to credit, help small banks make sure they can get through this, and generally repair what is still damaged in this financial system.

We also thought it was important just to make sure that we had a contingent capacity and an abundance of caution. In the event things were to deteriorate further, we wanted to make sure we had the capacity to respond without having to come back to the Congress.

But I think that those additional programs are likely to use only a small part of the remaining authority. And you can see in CBO's numbers and in the administration's numbers that the overall cost of this program will be a very, very small fraction of what any of us anticipated. And the programs we are recommending still for small banks and small businesses themselves also have a very, very low additional potential risk.

Mrs. EMERSON. Well, I will follow and ask a question in Mr. Edwards's vein, a "yes" or "no." Did you ever come to the Congress and ask us if you could extend the TARP?

Secretary GEITHNER. I notified the Congress of my decision to use the authority Congress gave me, which is to extend. But in making that notification—I just want to emphasize this—I was very, very clear what we would use that authority for and what we would not. And you can, of course, look very carefully at everything we are doing because we made these things completely transparent, so you can judge us by our actions.

Mrs. EMERSON. But the answer is no, you didn't ask, you just told us.

Secretary GEITHNER. Well, no. I mean, I listen carefully to your colleagues all the time, and I had a lot of support from many Members, including your side of the aisle, frankly, asking me to make sure we would continue to do things to help make sure that small businesses get access to credit, we are helping small banks again.

Because, as many of you have said already in this hearing today, if you go across the country, you can still see, even though in many ways the financial markets are more healthy today, there is a lot of damage, a lot of wreckage still in many parts of the financial system in the areas that the TARP was designed to help us fix. We have made a lot of progress, but we have some work to do. And, you know, it was partly because of the concerns many of you had expressed to me that I thought there was a good economic case for extending.

Mrs. EMERSON. Well, I worry and I think a lot of my colleagues on both sides of the aisle worry that the TARP funds are actually going to be used as a budget gimmick. I mean, for example, you know, in the December jobs bill, we used TARP funds to offset the cost. That is not what TARP funds were for, number one. Back in February, you know, you all said you wanted to use the TARP funds for small-business lending I think, $30 billion for small-business lending.

But yet, at the same time, the director of the CBO, Elmendorf, says that, you know, this is just one pool of government money and everything else is accounting treatments to keep track of various purposes, which to me says this is—"treatment" is a nice word for gimmick. So it is worrisome——

Secretary GEITHNER. I will not support anything in that—we agree with your concern about this, and we will not support it. The law doesn't allow us to do that.

The way the law was written, when we get resources back from the banks—and, as I said, we have gotten $170 billion in capital back and very substantial positive return on many of those investments—those resources go to reduce the debt.

What we are suggesting is that we reserve some authority to make sure we can help reenforce, provide support to small community banks. And we propose that Congress authorize a separate program called a small business lending fund to help, again, deal with the credit problems facing small businesses.

So I would not propose anything that met the test you are concerned about. And we don't have the authority anyway to do what you are concerned about. We wouldn't do it.

Chairman OBEY. Mr. Hinchey.

Mr. HINCHEY. Thank you, Mr. Chairman.

Thank you very much. Thank you very much for the opening remarks you made. They were very much to the point and thank you for the responses given to these questions. This has been very interesting and very, very important.

We are facing one of the most difficult economic conditions that this country has ever faced in modern history, second only to the

Great Depression, which is talked about a great deal. As many people point out, the deficit is unsustainable. It is important; however, as my friend Mr. Edwards pointed out just recently—and I thank him very much for the way in which he posed those questions and the way in which you responded to them—that the people of this country understand how this deficit came about, what caused this deficit, and what is being done to try to deal with it. Those are the critical issues that we have to deal with.

There are several examples that are so obvious. One of them was the tax cuts of 2003–2004, which have now brought about the greatest concentration of wealth in the hands of the wealthiest 1 percent of the population in this country since 1929. The other, of course, is the military operation in Iraq, which was unjustified, unnecessary, had no reason to be carried out whatsoever, but has been very, very expensive. And the expense has been, to a large extent, outside of the budget in ways in which it caused huge amounts of debt.

Other things include the Medicare prescription drug program, which came about shortly after the previous administration tried to privatize Social Security. That was rejected, happily. But, unfortunately, President Bush was able to get this Medicare prescription drug program put into place without any means of taking care of the high cost of the prescription drug program in the context of Medicare now. All of these driving up this huge deficit.

These are the things that we need to focus attention on, and these are the things that are being dealt with adequately by this Congress and by this administration. And it really needs to be done very, very strongly and very, very effectively.

The point that was made a little while ago about the government takeover of health care is absolutely absurd in the context of this health care bill. I mean, there are some people here who would like to see more government takeover of health care by doing something like Medicare and extending it more broadly across the country. And there are a lot of Americans out there who would like to see something like that done, too. But this health care program is not anything like that.

So anyone who says that this is a government takeover of health care is intentionally falsifying the situation, because they are not ignorant. They wouldn't be here, probably, if they were that ignorant. So they are intentionally falsifying that situation for their own political objectives. And that is what we are seeing over and over again: Falsification of information for political objectives. These are the things that need to be dealt with.

So what do you think we should be doing? I know this great stimulus bill is having a very positive effect, but there are substantial amounts it of that haven't been put into play. Frankly, my judgment at the beginning was that the stimulus bill was a great idea, but it should be about twice as large as it was.

There have not been adequate investments in the internal needs of this country in an awful long time, and a lot of that was done intentionally for other reasons. So this is something that really has to be done.

What do you think that we should be doing right now to upgrade the quality of this economy, get jobs for the American people, and get a situation that is much more equitable, much more fair and reasonable in the context of this economic circumstance?

Ms. ROMER. Well, let me address that. And I actually want to come back to our budget, which, as we have discussed a great deal this morning, puts in place a plan for dealing with the long-run budget deficit, makes some very hard choices now, and sets up a bipartisan commission.

But if you look at our budget documents, it proposed two things, about $250 billion of continued relief efforts, things like the State fiscal relief we have talked about, and continuing the unemployment insurance provisions of the Recovery Act. All of those things are absolutely essential to protecting people and helping the economy continue to grow.

It also included $100 billion of targeted jobs initiatives. And that is everything from, as we have discussed this morning, more investments in infrastructure, to a hiring tax credit, to zero capital gains for small businesses, to a proposal that the President has talked a great deal about, a clean energy or an energy efficiency retrofit for homes.

All of those things are smart programs; they are targeted; they are fiscally responsible. But we think they could absolutely move the dial, help us do what absolutely has to be done, which is get Americans back to work. So I think there are good ideas out there, and the President is asking with all urgency that Congress move on those and get those onto his desk for signature.

Chairman OBEY. Ms. Granger.

Ms. GRANGER. Yes, I want to follow up with just one question as Mr. Edwards was talking about, a particular timeframe, and just a "yes" or "no" on this.

Isn't it also true we were attacked on our homeland and fought these two wars during that period of time?

Thank you.

My other question is, the President's budget for fiscal year 2011 proposes the deletion of all the appropriations language which currently places limitations on transfers of Guantanamo Bay detainees. And it also requires advanced notification and related reports. This language was passed on several fiscal year 2010 bills, and it was negotiated to be acceptable to the administration. The amendments from our side of the aisle would have involved even tighter restrictions and reporting requirements.

So my question is, why are you proposing that the committee delete this language? For example, the language you are proposing to delete specifically prohibits the release of detainees into the United States and prohibits the transfer of detainees to the United States for continued indefinite detention. Does this mean the administration plans to release detainees into the U.S. or to transfer detainees to the U.S. for indefinite detention in fiscal year 2011?

Mr. ORSZAG. Congresswoman, as you know, the President believes that Guantanamo Bay should be closed for a variety of reasons.

Beyond that, what I will say is I know there are ongoing discussions with the attorney general and others about the appropriate course forward, and I am going to defer to him in those discussions for the specifics. But I am sure he would be delighted to followup with you.

Ms. GRANGER. Would anyone else like to answer?

Thank you.

Chairman OBEY. Mr. Farr.

Mr. FARR. Thank you very much, Mr. Chairman. I really appreciate having this hearing.

And thank you for your public service. We appreciate that, as well.

I wanted to followup on an earlier question about the credit at the local level in our small banks. One of my three counties that I represent has 22 percent unemployment. It is a large agriculture area. The county next door, Salinas, Monterey County has the Salinas Valley with about $4 billion of agriculture. I mean, incredibly productive area. But we also have the largest base closed in the United States in 16 years; still trying to get that.

There is a lot of opportunity. And what the small banks are telling me is that they just don't have the credit because of two things that they think have really impacted. One is the increased cost of FDIC insurance. But the second was the markdown of their essentially underwater mortgages. People are still paying because these houses are worth a lot and they will recover. My house is the same way. I mean, the market value of my house isn't what my mortgage is, but I know it is going to come back.

So it is not that they are defaulting on these mortgage payments, but they have had to mark them down. And between the loss of that capital, plus paying the insurance, they are just saying they are squeezed. How do I respond to that?

I mean, what you said earlier, that you want to get some—stimulate this, but specifically what can I take away and say is going to happen?

Secretary GEITHNER. Well again, you are absolutely right. There are two types of pressures facing small banks that really do affect small-business lending.

One is that there are some banks in the country that really need more capital, and they can't go raise it in the current market environment. And so there is a very good case for making sure they have access to capital from the government on sensible terms, so they can use that capital to increase lending.

Mr. FARR. But they have to borrow that capital, right?

Secretary GEITHNER. They do. But again, we have designed a program where it is a very simple program. You can come and get capital from the government for a long period of time at a very low dividend rate, and that dividend rate will go down as you increase lending.

Now, you are also absolutely right that a lot of banks report that they are under a lot of pressure from their supervisors to cut back lending, frankly, in part because they have seen the value of real estate holdings that backed the lending fall. So now our—I should just say, I should have said this before—that our supervisors are independent of the Treasury. But they, in recognizing this problem, came together, all four of the national bank supervisors together, came together and put out guidance in November to their examiners across the country to try to make sure that they had clear instructions not to put additional pressure on banks simply because they had a borrower that had borrowed from the bank backed by a real estate loan that had fallen in value. They want to make sure that the examiners are looking at the cash flows of the business, and they are not penalized solely for the reduction in real estate value.

Mr. FARR. Penalize if there is nonperforming loans, but don't penalize if they are performing.

Secretary GEITHNER. Exactly. Yeah, exactly right. And the bank supervisors followed up that guidance with additional guidance just last month focused on small-business lending guidance.

I don't think the message is quite getting out with enough force yet, but Sheila Bair, who plays a critical role in this, and the other heads of supervision in the United States are working to try to make sure they get the message out. But I think, frankly, they could do more to make sure that the examiners are not overdoing it.

Mr. FARR. And so, the money that they can borrow from you, is that TARP money?

Secretary GEITHNER. Well, you know, TARP, as you know, is an enormously unpopular program, and we are trying to put it out of its misery. And the conditions that come with TARP and the uncertainty about future conditions and the stigma of using TARP made it basically untenable as an instrument for this basic need. As an example of this, we had more than 600 small banks withdraw their applications from the Treasury in the first 9 months of last year because of concern about the stigma and conditions.

So what we have proposed to do is to set up a lending facility outside of TARP that would provide capital in support of lending. And we are working now with your colleagues in both houses to try to come out with a package that would command broad support.

And, again, this, along with more support for the SBA, is, we think, one of the most powerful ways we can help make sure that businesses across the country are not starved for credit as they try to expand and grow.

Mr. FARR. So these banks can't get the credit until we pass this legislation?

Secretary GEITHNER. That is right. But the virtue in this is that it is not a complicated design, and when Congress passes it, we can move very, very quickly to approve applications. So I think it has probably the quickest time to market of any programs we could design.

And, again, one of the best uses of a dollar of scarce resources is capital to a small bank, because that will turn into $8 to $10 in additional lending capacity.

Mr. FARR. Thank you.

Chairman OBEY. Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman.

And thank you all for being here today. I appreciate it very much. First, three or four comments that you can comment on later if you would like to, and then a question.

First of all, for the benefit of Mr. Edwards, my good friend, and for Mr. Orszag, Paul Ryan isn't on this committee. If you would like to comment on his plan, I suggest you do it when he can respond to it, because I think he probably has a little different take than either you or Mr. Edwards have on his plan.

Secondly, fiscal commission. I agree with you, I think the President was right to do that. Many of us have been suggesting this for a long time. And I think everything ought to be on the table. And it is going to be ugly. Decisions are going to be ugly. We all know that. If I think they are in the best interest of the country, I will vote for it. If I think they aren't, I will vote against it. And that is the way it ought to be.

Thirdly, when we talk about unemployment and ARRA funding, while we talk about it creating jobs—you know, I am not one of those that says it hasn't created a job. Obviously, it has created some jobs. Three hundred in one company in my district doing cleanup. We are now planning for next year when they lay off those 300 people. That is something you are going to have to deal with also, because there is going to be—it is kind of like Cash for Clunkers. It moved the purchase of automobiles up and then depressed it in future times. So it is something that we are going to have to deal with when that unemployment hits in the coming year.

Fourth, I have heard, surprisingly I guess, financial debt—when you came into office, financial deficits, opportunity deficits, job deficits, education deficits, investment deficits, and a new one, foreign relations deficit. The only one I haven't heard is the reality deficit that seems to have been created from all of these. If there are any other deficits that you faced when you came in, could you please send me a list of all those? I would like to hear about them.

Now the question: The one thing I heard when I was home over the last couple of weeks everywhere I went, at every banquet we had, was, "I wish you at the Federal level were making the same tough decisions every State legislator is making." And I heard that from State legislators. And I tell you, I have been through some of the decisions that they have had to make back in 1984 and 1985 when I was in the State legislature. They made tough, tough decisions.

Is the President going to submit a supplemental to bail out States? And, if so, why should those States that have been fiscally responsible bail out those that have not made the tough decisions? And we all know that there are some that have not made the tough decisions that others have made. And so why should my taxpayers or Indiana's taxpayers bail out—and I won't mention the States that have been irresponsible.

Secretary GEITHNER. Congressman, maybe I just could begin.

I think you are right to say, just to go back to one of your initial points, which is that you need to think about the Recovery Act as a bridge to recovery in private spending and private investment. And I think if you look carefully at what is happening across the country today, you can see encouraging signs of that happening. Because, again, if you just look at what is happening to businesses, you are seeing private investment expand again, exports start to grow. And that is encouraging that, you know, the economy is going to be able to grow coming out of this, even as we do the necessary thing, which is wind down these emergency things we had to do in the face of the worst recession in a long time.

And you are absolutely right; of course we have to make tough choices. And I think the American families—it is not just the governments—are making that choice all the time. And what the President's budget does is lay out what are dramatically consequential changes in resources and commitments over the next 4 years that would bring our deficits down very, very sharply over that period of time. And Congress is going to have to choose, again, what mix of those policies it is going to embrace. But it is very important that everybody accept the basic reality that we live with, which is that we have to get those deficits down very sharply within that period of time.

So you are right to emphasize it. But I think in the near term, this year, given the damage of the recession we are still living with, there is a very good fiscal case, very good economic case for giving additional support to State and local governments so they don't have to cut critical services deeply at a time when the economy is vulnerable and so many people are still suffering.

We need to do that in a careful way, in a fiscally responsible way. We have to make sure it is temporary so we can unwind those kinds of things. But I think there is a very good economic case, very good fiscal case now for additional targeted support for States and local governments as they make difficult choices.

We are not going to relieve them of all those choices. They are going to still have to make very tough choices on priorities, but we want to make sure they are not having to cut deeply into critical services at a time when, again, in so many parts of the country unemployment is alarmingly high and there is still so much trauma and damage in the aftershock of the recession.

Mr. SIMPSON. Do we have any time?

Chairman OBEY. Twenty seconds.

Mr. SIMPSON. One thing I would like to address is what we are doing with fixed costs. One thing we have complimented the administration on in past years is that they have fully paid in Forest Service in the Interior. This year, Interior is going to have to accept $109 million in fixed costs. How are they going to do that?

Mr. ORSZAG. Well, first, let me just say, since you have raised fire in particular, that aggregate resources not just in Interior but in the Agriculture Department and elsewhere for addressing wildfires is up 5 percent.

Look, you talked about hard choices. At OMB, we face a flat, nominal budget despite the fact that the vast majority, something like 80-plus percent, of our budget is personnel and there is normal upward pressure because of not only wages but health benefits. And we have to make hard choices. The Interior Department is no different. And going down the list of other departments that I did earlier where the Secretaries have agreed to even nominal reductions, they have plans to do so. I mean, in other words, they have specified budget plans to do so. And we could follow up with Secretary Salazar, in particular, if you are interested.

But that is exactly what is involved in getting more efficiency out of the Federal Government.

Chairman OBEY. Mr. Fattah.

Mr. FATTAH. Thank you, Mr. Chairman.

Two things. One is I want to make a comment, and then I am going to get to my question.

So we had the first 6 years of the Bush administration. We had Alan Greenspan testify in the first months of the Bush administration that we had a $5 trillion surplus and we could be an entirely debt-free country at the conclusion of 8 years of the Bush administration. Eight years later, much different reality.

The Republican Party—and it is outrageous to hear this selective amnesia of some of my great friends on the other side—but for 6 years controlled the Congress and the White House, and the tax cuts which put a hole in the budget; the war—and we have been at war before as a country, but we have always paid for it with war bonds and more taxes. So we never went to war and sent the bill to our grandchildren, our great-grandchildren. We paid for it. And then, finally, a major increase in entitlements without paying for it.

So the country is now fiscally bankrupt as you come into office. The President has a national debt of over $10 trillion, a deficit in his first year, by the time he was sworn in, of over a trillion dollars. And then we have them trying to place the blame on this administration. It is an amazing political feat that they are trying to pull off here. I don't think it is going to work, at the end of the day.

But I do want to get to the substance of what we have to do to go forward, because you have done a great job. We see a lot of indicators of a great job: manufacturing up, consumer spending up, purchasing orders up, exports up. We have seen us go from in the first 2 months of last year losing almost a million and a half jobs to losing less than 100,000 over the last 2 months. We see progress. But there is more work to do be done.

I am interested in one of the more deep-seated problems hidden in the budget, which is the national debt itself and the interest we pay on it. Now, I propose that we have a dedicated revenue source and that we—exempting the financial markets, focus on everyday transactions, take a penny off of a dollar and pay off the debt, have a dedicated program to pay off the debt.

Most economists who have looked at this say we need to deal with the long-term growth of entitlements, raise additional revenue, and move to broad-based tax reform. So I am interested in what you think about a dedicated source of revenue, a new source, focused only on the debt and what you think about the notion of a very nominal transaction fee on everyday transactions, not the stock market, but that happen through our economy.

And you can start with the budget.

Mr. ORSZAG. Okay, thank you.

Several comments. First, while there are interesting ideas about dedicated revenue in a variety of settings, it is important to remember that money is fungible. And so, dedicating a dollar to this specific use is, in some sense, no different than the general pool, given the fungibility of money.

Second, one of the key tasks that the fiscal commission faces is coming forward with a set of recommendations, which may well include both things on the spending side and possibly things on the revenue side too, that will get us ahead of this medium-term deficit problem even more than the budget already does.

So, in that setting, I am sure there are going to be a whole variety of ideas discussed and evaluated. And we would like to allow that process to play out and the co-chairs to conduct the commission's operations——

Mr. FATTAH. So you don't believe that you could segregate a revenue source just to pay off the loan someday because it is fungible, right?

Mr. ORSZAG. No, anything is possible. One could do that. But I guess what I am saying is, we have a commission set up to get ahead of the broader problem, and we would like to let it do its work.

Mr. FATTAH. Right. Thank you.

Mr. Secretary.

Secretary GEITHNER. Well, you and I have talked about this many times in the past, and I want to commend you for the attention you are giving to this longer-term problem we face of an unsustainable debt burden. You are right to focus attention on it. And we will, of course, take a careful look at any credible idea to help contribute to that reduction.

And we look at all of these things through a simple set of objectives, principles, which is: Are they going to make the economy stronger in the future? Are they fair, do they provide a fair burden of adjustment on the American people? Are they going to make a big enough contribution to improving fiscal stability? We will look at things through that basic prism.

But, as Dr. Orszag said, we want the fiscal commission to take a fresh look, step back from politics, and take a look at a range of options for how to reduce these unsustainable debt burdens. And, again, I want to compliment you again for focusing attention on not just the problem, but being courageous enough to put forward some creative ideas for solving it.

Mr. FATTAH. Thank you, Mr. Secretary.

We have about $800 trillion in transactions in our economy, about $500 trillion outside the financial markets. Do you think that a dedicated——

Chairman OBEY. The gentleman's time has expired.

Mr. FATTAH. Thank you, Mr. Chairman.

Chairman OBEY. Mr. Bonner.

Mr. BONNER. Thank you, Mr. Chairman.

I, first of all, would like to thank my colleague from Ohio, Mrs. Kaptur, for her comments today, because she expressed the frustration that many of us feel, that there really is a disconnect. And that is not laying a partisan thing, because she is a member of the majority. But she is speaking for a lot of communities, a lot of cities, and a lot of people who feel that their government—Democrat, Republican, Congress, the administration—is not paying attention to what they are feeling and what they are fearing.

Mr. Orszag, you commented initially about the fact that health care was something you would be willing to discuss. I think I am correct that all three of you are presidential appointees confirmed by the United States Senate. Is that correct?

Mr. ORSZAG. Correct.

Mr. BONNER. I would like to just share a couple quotes, because I am confused. I worked up here for 18 years as a member of a congressman's staff from my district. I have been in Congress representing the people of my district for—I am going on my 8th year.

Last week, the Speaker of the House said to the National Association of County Officials, "We have to pass the bill so you can find out what is in it." This morning in today's Washington Post she says that we may actually pass the bill without even voting on it, something that is called "deem and pass."

Now, I am not going to ask you to comment on the Speaker's quotes. I am going to ask you to comment on Senator Obama and Senator Biden.

Senator Obama said in October of 2007, "You have to break out of what I call the sort of 50-plus-1 pattern of presidential politics. Maybe you can eke out a victory on 50-plus-1, but you can't govern. You know you get Air Force One, there are a lot of nice perks, but you can't deliver on health care. We are not going to pass universal health care with a 50-plus-1 strategy."

Then Senator Biden said in May of 2005, "I say to my friends on the Republican side, you may own the field right now, but you won't own it forever. And I pray to God, when the Democrats take back control, we don't make the kind of power grab that you are doing now."

Were Senator Biden and Senator Obama right? Or is President Obama and Vice President Biden right with regard to the discussion of health care?

Mr. ORSZAG. Congressman, first, let me just say that the procedures that will be followed with regard to passage of health care reform have been long-established. All we are asking for is a simple up-or-down, majority vote. But I don't want to get into the legislative strategy.

The key content here, the substance is, we are on a path over the long term where it doesn't matter whether you support revenue increases, non-health spending reductions, we are on an utterly unsustainable course unless we change the incentives in our health care system.

And on this I would agree; former Senator Frist had an opinion piece in The New York Times maybe 2 weeks ago saying the key thing we need to do is move away from paying for quantity and towards paying for quality. I could not agree more.

The problem is—and I have now been to innumerable Institute of Medicine and Brookings and AEI and what-have-you seminars—we don't know exactly the constructs that should be used. We have very promising ideas: accountable care organizations, paying for performance, medical homes, penalties against high readmission rates for hospitals. But exactly whether the penalty should be 5 percent or 10 percent, what the readmission rate threshold should be, there are lots of promising ideas but no definitive conclusions.

In that context, it is my firm belief that what we need to do is be very aggressive about testing out different strategies and then having a mechanism for quickly moving the scale on the most promising ideas. And if we don't do that—which, by the way, the legislation sets up an infrastructure for doing—if we don't do that, ultimately nothing else that we have been discussing on the budget is going to matter.

Mr. BONNER. Mr. Orszag, with all due respect—Dr. Orszag—that is just as good a shift as I have ever heard.

I asked a very simple question. Were Senator Biden and Senator Obama——

Mr. ORSZAG. I gave you a clear response, which is that——

Mr. BONNER. You gave a good Washington response.

Let me shift subjects. Dr. Romer, you indicated—and I would like for your numbers—I don't want to put them in your mouth. What were the numbers of small businesses that were approved for help from the government, 45,000?

Ms. ROMER. I have 42,000 loans made to small businesses through the Recovery Act.

Mr. BONNER. Through the Recovery Act. Do you know how many small businesses actually applied for help and were turned down?

Ms. ROMER. I don't have that number. I can try to get it for you.

Mr. BONNER. Well, that would be helpful. Because when I look at my district, since January of 2007 when a new majority took control of Congress, my district has gone from 3 percent, 6 percent, 4 percent, 3 percent, 6 percent, 6 percent, in the six counties I represent, of unemployment to 11 percent, 18 percent, 13 percent, 12 percent, 16, and 22.

Chairman OBEY. The gentleman's time has expired.

Mr. BONNER. And I think it would be helpful to get those numbers so we can see who is not being helped.

Thank you, Mr. Chairman.

Chairman OBEY. Ms. Lee.

Ms. LEE. Thank you, Mr. Chairman.

Let me just clarify something. The gentlelady from Texas has departed, but she referenced 9/11. And, yes, we unfortunately, you know, were attacked on 9/11. It was a horrific attack. But we also started a war in Iraq which had nothing to do with 9/11, which has cost us over 4,000 lives and billions of dollars. So I just wanted to clarify that.

Good to see you, Dr. Romer, and all of you. I have one question for each of you.

The Congressional Black Caucus continues to sound the alarm regarding the glaring unemployment rate among the chronically unemployed. The unemployment rate is over 15 percent for African Americans, over 12 percent for Latinos, compared to a national average of about 8.8 percent.

The Congressional Black Caucus has specific proposals to address these huge disparities, which really are moral gaps. We presented them to our leadership and to President Obama as recently as last week. I will give you a copy of these proposals.

But there has been much debate on the notion that broad economic policies without adding targeted policies and strategies to areas of highest unemployment will trickle down to these populations. It hasn't worked, really, in the past. And I want to know, Dr. Romer, if you think trickle-down economic policies will work now.

Second, to Secretary Geithner, we also discussed with the President a report indicating that only 1.1 percent of African American businesses and 1.6 percent of Latino businesses have received contracts under the Recovery Act, although we have from the Stakeholders Outreach Initiative that 16 percent of our contracting dollars have gone to minority firms.

There is a big discrepancy there, because the Kirwan Institute has done a study—they used government data. So did a reference in the Bloomberg Business Report by Jesse Washington in February. He also said 1.7 percent of Latino businesses and 1.1 percent of African American businesses. So I would like to get that clarified, and I would like these numbers broken down.

And, finally, to Director Orszag, good to see you. Let me just ask you about this partial freeze in spending as it relates to military spending, because we can't seem to turn off the spigot that rains down on these defense contractors. What action does the administration plan to do to reverse this trend and finally rein in military expenditures, which now account for 58 percent of the Federal discretionary spending, when we know that billions and billions and billions of dollars in Cold War-era weapon systems really need to be taken off the table? How do you all intend to address this within the context of the spending freeze?

Ms. ROMER. All right, well, why don't I start off?

I think the first point that you raised, that, as horrible as this recession is on average, it is particularly hard on certain demographic groups, we know in certain parts of the country, we know on different types of people just in terms of how much education you have, it has been much more—the unemployment rate has been much higher for less educated workers. All of that is absolutely terrible and something that we need to deal with.

I do want to say that one of the things we know is things like the unemployment rate for African Americans is particularly—it moves with the business cycle, just more extremely. And so, just as the unemployment rate tends to go up more when the unemployment rate rises nationally, it comes down more when the overall unemployment rate comes down.

So I think our focus on just getting everybody back to work is certainly key and appropriate. But, certainly, we can do more. We are very anxious to work with you and have been listening to your ideas and very much—something that there is an active process in the White House, trying to figure out what we can do, because we obviously want to put everybody back to work just as fast as possible. So we look forward to working with you on that.

Ms. LEE. Thank you again. We miss you in Berkeley. But you are doing a great job here.

Ms. ROMER. I miss Berkeley.

Secretary GEITHNER. Congresswoman, could I answer your first question, too?

I agree with you and I agree with Dr. Romer that it is not enough just to focus on things that affect the national growth numbers, national employment numbers. I think there is a very good case for making sure we are providing targeted investments in communities across the country hardest hit by the recession, by the housing crisis, by unemployment rates. And we are going to continue to do that.

I will give you just two examples of things we have done at the Treasury in this conduct with support of the President. One is to substantially expand the resources we put into the CDFI and New Markets Tax Credit programs. And those programs, by design, really only go, or go principally, to many of the communities with the highest rates of unemployment, most adversely affected by the financial crisis. And we think they really work and have a very good record of success.

And we announced just a few months ago a targeted program under TARP to give capital to CDFIs, as well. And the combination of those two things are a very, very large, substantial increase in resources to low-income communities across the country. That is just part of a response. I just wanted to highlight those two things.

On the numbers, I would be happy to take a look at those, see if we can explain what the disparity is. And I will work with my colleagues in the administration to see if we can give you a response on the numbers.

Ms. LEE. Thank you.

Chairman OBEY. Mr. Cole.

Mr. COLE. Thank you very much, Mr. Chairman.

And thank all three of you for your patience. It has been a long morning, I know, and into the early afternoon.

Secretary Geithner, while I agree with some comments made by my colleague, Mrs. Emerson, about TARP and what is happening now, I really do—and I mean this quite seriously—appreciate your spirited defense of TARP and the fact that it actually costs less than any of us thought it would, that we are going to get most of our money back, and it actually accomplished what it was supposed to do, which was stabilize the financial system.

Who was President when that was passed?

Secretary GEITHNER. I think you know the answer to that. That was passed—President Bush proposed and passed, and my predecessor, Secretary Paulson, was the one who acted with the initial actions——

Mr. COLE. The reason why I make that point is simply I think—and we all want bipartisanship. We all know we are going to need it to confront the problems I think all three of you laid out very well. We would get a lot further if you thanked occasionally the last President instead of blaming the last President for every single thing in the world.

Secretary GEITHNER. I think that is a fair point. And I just want to say that, as you know, I worked very, very closely with Chairman Bernanke and with Secretary Paulson throughout——

Mr. COLE. I know you did. I have read the books and know how highly they think of you.

Secretary GEITHNER [continuing]. I fully supported the legislation and fully supported——

Mr. COLE. I just would like that point made occasionally, because it, frankly, never is.

Second, just looking at the stimulus act, the Recovery Act, whatever term we want to use, you know, I don't dispute at all that it has created some jobs and done some good. You can't deploy that much resources and not have some impact.

But at the time that it was offered—this is probably more fairly directed to you, Ms. Romer—but, you know, the implication was or the statement was, you pass this, unemployment will ever get above 8 percent. Clearly, it has gotten above that. Clearly, we don't envision it getting back to 8 percent for a good long while. Why the shortfall?

Ms. ROMER. It is a very legitimate question, and I think the important thing to say is it really was a deterioration in the baseline forecast without the stimulus; that, you know, back in December of 2008 when we were designing the fiscal stimulus and certainly thinking about the effects, we knew the unemployment rate was headed up, and I think neither we nor private analysts realized just how much.

Some of that is because the recession turned out to be deeper. Especially, I think, one of the things I remember very much from that fall was the question of, would it be isolated in the United States or would it spread throughout the world? And one of the key things that we learned early in 2009 is just how much it was an international phenomenon.

I think the other thing to point out is, this recession has been particularly hard on the labor market. And, actually, I will give you a little-known fact. When we did our forecast last year, we actually turned out to be almost dead-on on the GDP forecast. But, in fact, what has happened is the unemployment rate has risen some 1 to 2 percentage points more than you would have anticipated given the behavior of GDP. It has been particularly hard, as has been suggested, on American workers.

Mr. COLE. And, you know, I would almost take from that that, actually, TARP came closer to achieving its objective than the Recovery Act. But I think your answer is a fair one.

Mr. Orszag, I don't have a lot of time, but this really, sort of, gets at where the administration wants to take us over a long period of time. I think you made the point that, historically, the Federal Government spends around 20 percent, 21 percent of the GDP. You talked about the spike up this year, for I think very legitimate circumstances.

Looking long term, if the President achieves all of the programs he wants to achieve, what is the long-term level of spending as a percentage of GDP going to be at the end of this—let's assume he gets reelected—at the end of a long two terms?

Mr. ORSZAG. In the budget, it is still in the 23 to 24 percent range——

Mr. COLE. So, a pretty significant increase.

Mr. ORSZAG. Let me try to explain why for a second. It reflects two basic forces.

One is we faced an underlying problem with regard to health care costs and the coming retirement of the baby boomers, which puts upward pressure on Medicare, Medicaid, and Social Security. That raises, by 3 percent of GDP, those three programs over the decade.

Secondly, because of the—and I guess the chart has come down, but because of the large debt—and I won't use the word "inherited" again—but the large debt that the Nation faces, interest payments are higher than would otherwise be the case. And that raises overall spending.

Mr. COLE. But then is it fair to say—and I want to give you a chance to respond—that, long term, you envision expansion in the size of Federal Government, I would say fairly substantial, and we would still have at the end of that period an ongoing deficit that is larger than you are comfortable with?

Mr. ORSZAG. The deficit is larger than we are comfortable with, and that is exactly why, again, we are in the process of a full appointment of the fiscal commission, and that is what the fiscal commission is intended to address.

But with regard to the expansion of government and the level of spending, it is crucially important to realize that that increase is not due to administration policies. And that is what I was trying to emphasize. There is an underlying problem. We need to address the underlying problem. And my opinion is we need to do it together.

Mr. COLE. Thank you very much.

Thank you, Mr. Chairman. I yield back.

Chairman OBEY. Mr. Berry.

Mr. BERRY. Thank you, Mr. Chairman.

I thank you all for being here today.

We have talked and talked and talked about infrastructure. And it appears that you all agree that we need more and we need to maintain better what we already have.

We have a hydroelectric dam that is halfway finished with renovations. It would cost $20 million to shut the project down, and we can finish it for $50 million. And your administration zeroed it out. Peter, you and I have talked about that. I don't know if you remember or not. This was the first time, you recommended shutting it down. Now you come back and say roll it out.

So that is a mystery to me, how that decision was arrived at. It is one of the reasons that I don't trust the administration to make too many spending decisions, because I don't think they do it very well.

The other issue I would like to hear someone address is the way FEMA is redrawing the flood maps in this country, putting millions of houses in the flood plain, when they don't belong, and giving almost zero explanation as to how they arrived at this, except to say that, as they do this, they are considering that there is no flood protection. And in the place where I come from, every square inch can be flooded by somebody some way, somehow.

So it is causing a huge problem. This started after Katrina. It has continued in the Obama administration. In fact, it has gotten worse. These are some of the most economically depressed areas in the country. And so if you could address those things, I would appreciate it.

Thank you.

Mr. ORSZAG. Congressman, first, with regard to FEMA, I guess I have been more focused on the funding for the disaster relief fund. And, as you know, action will be necessary there. We can have an administration official get back to you on the flood plan, because I am not personally aware of FEMA's activities on that.

Mr. BERRY. It is a huge problem. Even Montana has this problem, of all places. They don't have enough rain or water to hardly have a flood; they have to all get together and cooperate to have one.

So we haven't been able to get FEMA's attention. We haven't been able to get anybody's attention so far. And it adds a thousand dollars to the cost of a house payment a year just about everywhere, and it is a very serious matter to those of us, especially in the Lower Mississippi Valley.

Mr. ORSZAG. Okay.

Mr. BERRY. And you haven't gotten any comment about shutting the dam project down?

Mr. ORSZAG. As you know, we have had discussions on this. And let me just say this. The Corps of Engineers process as a whole—let me sort of step back and say the Corps of Engineers process as a whole, I think from an administration perspective, we have two key objectives. One is to make sure the Corps remains focused on the three key areas that it has historically focused on. And the second is to use rigorous cost-benefit analysis consistent with the discussion we were having earlier on regulations to make sure that the best projects are funded.

Those are the two key guiding principles that the administration uses with regard to Corps of Engineers funding.

Mr. BERRY. I think you blew it on this one.

Mr. ORSZAG. I understand that different people have different perspectives. I appreciate that.

Mr. BERRY. You have a project that is half paid for, and it is going to cost you half of what is left to shut it down. And it is a hydro project; it is the cleanest energy you can get. And it is already there. It is not like we are building a new dam or anything. It is a renovation project.

Mr. ORSZAG. Again, in addition to the FEMA flood plan, we will come back and have a further discussion with you about that specific project.

Mr. BERRY. Thank you.

Chairman OBEY. Mr. Calvert.

Mr. CALVERT. Thank you, Mr. Chairman.

I apologize, I was away for a while. I was on the floor. And this may have been brought up, which is the problem with the commercial real estate sector at the present time.

As you know, commercial real estate values throughout the United States are literally collapsing, going down as much as 40 percent, 50 percent in some areas. And most experts assume that this continuing collapse in commercial real estate values will continue through 2011, 2012.

Deutsche Bank just did, in a recent study, of about $1.4 trillion in outstanding commercial paper, a significant part of that will come due by 2013. Almost half of it is underwater.

As you know, a lot of these small and midsized banks are primarily exposed to these commercial loans. And the regulators in day-to-day activities aren't helping much, especially on the performing assets. We have performing assets where people are making their payments, making their tax payments, making their insurance payments, are current, and yet the bank is bringing them in because of appraised values and telling them to come in with a significant capital call, which they can't do in this credit market.

And what the banks are doing is taking back the property, having to put it in the loan loss side of their ledger, which is taking credit away from these banks, because they don't have the money.

So what can we do—this wouldn't, from my perspective, cost the government anything. If banks have discretion on performing assets, why aren't the banks given discretion to footnote that these assets—and they are assets—are current and can be treated as an asset rather than a liability on the balance sheet?

Secretary GEITHNER. You are right about the problem, and you are right that we have a ways to go to get through the broader adjustment in commercial real estate that is still ahead of us. And we discussed it a little bit when you were away, but I think, again, the two most important things we can do in this area is to make sure that small community banks, which have a lot of commercial real estate exposure, have the ability to come take capital from the government to help make sure they don't have to cut lending further to their business clients.

But, also, we can—and we have been continuing to work with the bank supervisors, so they are providing guidance to their examiners and that message gets out across the country that they don't, frankly, overreact, overreact to decline in the value of collateral and they look at the broader cash flows, earnings potential of the company as a whole, as they are looking at loan classification decisions.

Mr. CALVERT. I have a limited time. If the gentleman would let me reclaim my time.

I will tell you, in the real world right now, I know of people who have shopping centers, 100 percent full shopping centers, paying their bills, and yet they are still getting capital calls on those loans, which makes zero sense.

Secretary GEITHNER. No, I think you are right. I hear these stories across the country. I think you are right to emphasize them. And I just need to underscore that the bank supervisors, which are independent of the Treasury—I don't have the capacity to direct what they do, in this case—are working to provide a little bit more balanced guidance to lean against just the practices you are shining a light on. And I think they can probably do a better job of getting the message out to——

Mr. CALVERT. But this also goes back to the mark-to-market provisions. And I understand that there may be, from my perspective, a step back in this economy where you have an overcorrection in value, where we ought to take a look at relaxing those mark-to-market provisions on performing assets. Because, under the accounting rules, they are going to continue to deflate—this is going to continue to deflate these values. And that is not going to be helpful in trying to get this economy moving again.

I am fearful—I don't know if you are—that this commercial real estate problem is so huge that it could put us back into a double-dip recession.

Secretary GEITHNER. I do not believe it poses that risk at the moment. I think, again, it is going to be a challenge——

Mr. CALVERT. We thought the same thing about the housing market.

Secretary GEITHNER. We did. But I think this is different, and our financial system is in a much stronger place today to weather those remaining challenges.

As you know, the FTC and the FASB are looking at a whole range of broad reforms to accounting practices in the United States. And I think they would be happy to talk to you, to respond to any questions you have about how to think about the role fair value accounting can play in mitigating these kinds of pressures in the future.

Mr. CALVERT. Thank you, Mr. Chairman.

Chairman OBEY. Mr. Ryan.

Mr. RYAN. Thank you, Mr. Chairman.

You know, there has been a lot of talk about the stimulus package here. In my district, we have taken $20 million, and it leveraged a $650 million investment from a French company that makes tubes for oil and natural gas. We had a $350,000 Community Development Block Grant that was leveraged into 650 incoming tech jobs in downtown Youngstown, Ohio, a California company. We got a TIGER grant for $20 million that is going to leverage $100 million, 700 full-time jobs. We used recovery bonds and Community Development Block Grant money in Akron to keep the Bridgestone technology center located in Akron. So there are many success stories about the stimulus package, and many are happening in our district.

One of the other things that has been positive is that General Motors—the Lordstown plant in Ohio is going to produce the Cruze. They just added a third shift because of the bridge loan and the whole nine yards. So there has been some positive things.

Secretary Geithner, I have to talk to you about the Delphi salaried retirees that are located, many of them, thousands of them, in my district, thousands of them in Ohio and across the country, who just flat-out got a raw deal throughout the GM bankruptcy.

We need your help. There are families here, these are middle-class families. There is a variety of issues with them, but their pensions didn't get topped off. They need your help. It is having a traumatic effect to our local economy and our ability in Ohio to fully recover because of the pensions that they are not getting. And we have about 15,000 to 20,000 people that are extremely upset not only at the government but at General Motors. So I think it is going to hurt GM's long-term success in some very traditional manufacturing States who have been loyal to General Motors.

We need your help on this to figure out how, either through the TARP program or some other mechanism, to get these folks their money back.

Secretary GEITHNER. Congressman, you are right to highlight the problem. And I am happy to spend some time in talking to you about whether there are ways we can mitigate it.

And you are right to emphasize—and I think people should understand this—that even though the U.S. automobile sector is coming out of this in a much stronger position than it came in, and even though we were successful in preventing just enormous job loss across not just those companies but their suppliers in those communities, there is still a lot of damage caused by the restructuring process they went through. And I understand that.

And you have been a very forceful advocate for highlighting the pain that many people still face because of this stuff. And I would be happy to spend some time with you, talking through whether there is anything we can do in that area.

Mr. RYAN. Well, we have to do more than talk. We have to figure it out. Because here we are in the Mahoning Valley in Youngstown, Ohio; we have been in recession for 30 years. We are finally, as I said, starting to get some progress, and this is going to rip $100 million in pension money out of our community that is going to be detrimental not only to our community.

So we have to sit down and figure this out. I mean, I think you have enough creative people in your organization and in my office and with others to be able to figure this out. So, please, please, please help us figure this out. We need your help, and we can't do it without you.

One last thing. I have a bill that will help with some bond funding with local communities. As I said, the recovery bonds were very, very helpful. We want to get some money into our local port authorities. And my bill has a government guarantee of four times what the reserves are for a local port authority, for example, that could leverage a lot more money. They do a great job of getting money out, having economic impact, getting deals done, making deals happen.

So do you see that as a viable option that you could possibly help us with?

Secretary GEITHNER. I would have to look at the details, but I would be happy to do that and make sure we get back to you on it.

I would underscore that the build-more-eco bond program, which we proposed to extend and expand and reform, has been very, very effective in meeting many of the similar challenges by local government entities across the country. But I would be happy to look at the details of your proposal.

Mr. RYAN. Okay. The port authorities are great.

Go ahead.

Ms. ROMER. I just actually wanted to add, I think the things that you highlighted, the degree to which stimulus, you know, the Recovery Act funds get leveraged by private-sector funds I think is an absolutely essential characteristic.

And I think it also goes—you know, so much we hear, "Oh, you have created government jobs." And it is so important to understand that, by far, the huge quantity of jobs are in the private sector. And that is a key part of what the Recovery Act is doing.

Mr. RYAN. Correct.

Just lastly, Mr. Secretary, I talked to the President yesterday—he was in Ohio—about the Delphi salaried retirees. So we are going to follow up and continue to work with you on this.

Thank you.

Chairman OBEY. Mr. Ruppersberger.

Mr. RUPPERSBERGER. Well, you know, a lot in politics for us is not always dealing with fact, and you have heard here today the disputed facts. A lot of it is about perception, and especially in our districts, our constituents' perception of what is going on.

I would like to talk about the issue of banks lending money. I think, of any issue that is out there now that is slowing down our recovery, it is about how do we get the banks to lend money. And whether it is money for home mortgages, whether it is commercial money, whatever.

And I think the way to deal with that—and what I am hearing over and over—is to try to refocus and get as much money into the more local community banks. And that then, as a result of them lending money, can infuse capital, which creates jobs, allows to buy inventory, and also allows us to get tax revenue once people are working again.

Now, let me ask you this. Where are we—or would you consider to recycle the existing TARP money that we are getting back into these community banks?

I think this is probably one of the best ways to move forward. We hear what the administration—or what you say here, but when you are out in your community, it is just not happening. It is not happening in the business community, the small business community, whatever.

How about that issue?

Secretary GEITHNER. You are absolutely right about the problem. And you are also right that the best solution is to make sure that those banks can come and get capital. It is the most effective thing we can do. Again, a dollar of capital is $8 to $10——

Mr. RUPPERSBERGER. Right. Tell me how are we going to do it, then.

Secretary GEITHNER. And we tried four different ways over the last 9 months to get small banks to come to the TARP, take capital from the government, but because of the stigma and because of the conditions, 600 of them withdrew their applications.

So we, after trying, we decided that the only way we were going to do it was to go outside and around TARP. So we have legislation pending, and we believe it has a very good chance of winning broad support, to authorize a small business lending fund that would do exactly what you suggested.

And, again, if enacted, it is very quick. People can come and we can provide capital very quickly. And it is the best, most effective way, with the best leverage for taxpayers' dollars, of getting support for the lending problems many businesses still face.

Mr. RUPPERSBERGER. Well, I would suggest that we do that very quickly. Because if you look at what happened in the savings and loan crisis, we created a resolution trust. We bought the bad notes from the banks that weren't worth a lot. But then that cleared the books, allowed the savings and loans to start lending. And also that paper was worth something when we got out of the crisis.

Another issue and then I am finished. The other issue is that we have a lot of midsized banks that are really having some difficult problems doing whatever they can to find an infusion of cash so they can start lending. And a lot of these midsized banks in our areas might have 1,000, 2,000 jobs.

It seems to me that their complaints are that the regulators are constantly telling these banks—and when they try to borrow money—not to lend. And yet, if there is a group that probably needs more help, it is that midsized banks that might need—not that it is not a lot of money, but in what we do here—$10 million to survive. That infusion could turn things around, create jobs, and allow the lending. And that is not happening.

And I would suggest that, in each major jurisdiction, that you work closely with Members of Congress. Because when we get involved, it is like a negative. Well, you write a memo to the congressman, call, you are putting pressure on. Well, that is our job, to put pressure on when things aren't right.

And I would suggest that you work closely. And I want to have my staff contact somebody on your staff, because I have a couple banks that are there that feel they have not been treated like the big banks. The smaller banks are getting certain help, but these midsized banks that really create a lot of jobs in your area.

So how can we deal with these midsized banks that might need about $10 million and it might put them in a different area and yet the regulators say, no, don't lend, or whatever? How would you deal with that?

Secretary GEITHNER. The FDIC, the Office of the Comptroller of the currency, the Federal Reserve Board Office of Thrift Supervision are the ones responsible for trying to make sure that their examiners get this balance right.

There are some areas where they need to be tougher, frankly, and the responsible thing to do is to be tougher. But we have to be very careful they don't overdo it and end up making the problem we are all still working through worse.

So the best thing you can do is to make sure that you are highlighting this problem for their supervisors. I can help reenforce that, but they are independent and I cannot direct what they do. I can encourage them to get that balance better.

They are working on it. But they need to get the message out not just—you know, they need to get a message out of Washington, so the people in Washington aren't just hearing it, people who do bank exams across the country are hearing that message.

Mr. RUPPERSBERGER. I am glad you are able to get the facts out, because I really liked the line of questioning of Chet Edwards. We have to deal with the facts, look at history to learn, so we don't make those mistakes, and move forward.

Thank you.

Chairman OBEY. Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman.

I want to make an observation and then ask my questions all at once and give you most of my time to answer them.

I just really want to point out that I wish that when I was in the minority in my first 2 years that we had been asked to come to the table and work in a bipartisan, cooperative spirit as many times as we have attempted to reach out and do the same since we took over the majority. That is just an observation.

And then I am just rhetorically, Mr. Chairman, wondering how many 7.5-hour bipartisan summits on any issue did the previous President hold at the White House to bring people together and figure out how we can best come together on a very important issue. I think the answer is none.

So, that having been said, I want to ask you, Mr. Secretary, a follow-up question to when you were in front of the Financial Services Appropriations Subcommittee about the Hardest-Hit Fund program. Because, since that subcommittee hearing, it has come to light that the housing agencies—my State is getting the second most amount of money, and we truly appreciate it; it is badly needed—are only being given 6 weeks to submit their plans. And my concern is that that is a very short time frame to come up with something innovative. And there have been comments about not reinventing the wheel, but coming up with something innovative and risking wasting money or not spending it effectively is a concern. That is my first question.

Just to piggyback on what many other Members have asked but Mr. Ruppersberger most recently—and, again, I asked you this in the subcommittee hearing—the thing that I hear the most often in my upper-middle-class to wealthy district—because I do not have a lot of working-class neighborhoods in my district, so you would think that somehow we would be shielded. No one is shielded from this economic downturn. Neighborhoods in my district are dotted with foreclosures. And at every town hall meeting I have or many of the phone calls I get in my office, the folks stopping me on the street are saying, "I have done everything I can to try to get my bank to work something out with me. I am upsidedown. I want to stay in my home. I can make mortgage payments. I am not a deadbeat. I don't want to walk away."

I hear you saying, we are trying, we are controlling, we are encouraging. That isn't enough. We need to make them do it. Why haven't we either proposed or attempted to make them do it?

And lastly—it is a totally different subject—on the summit on April 15th at the Kennedy Space Center. This question is not for you. Probably best for Director Orszag to answer it.

Is that summit—and I appreciate you taking us up on our suggestion, those of us who are concerned about the President's plan—is that summit going to be a session where the stakeholders and the administration and others are going to be able to come together and focus on a workable plan, a compromise? Or is it simply going to be a summit in which the President is going to come try to sell his plan to the people who participate? Because those are two very different types of summits.

So those are my questions, and you can use my time to answer.

Secretary GEITHNER. On your first, I hear you, and I will take a look at it and talk to my colleagues, and we will get back to you. I think you are right. We want this to get to work quickly. We want it to work. It is the balance we face.

On the housing front, let me just say the following. We do not have the capacity to compel or force. We just don't. So what we are trying to do is a mix of carefully well-designed, very modest incentives and a huge amount of public pressure.

One form of pressure we use is to put the numbers of performance of servicers in the public domain every month, bank by bank, so everybody can look and see which banks are doing a reasonable job—nobody is doing a terrific job—and which banks are doing a terrible job. But we are doing as much as we can. And, as I said in our last——

Ms. WASSERMAN SCHULTZ. I am sorry to interrupt you. But they jerk people around. They lead them on. They tell them they are going to work with them. They tell them to put in an application. Months go by——

Secretary GEITHNER. You are exactly right. And people have terrible stories, incredible stories. And, you know, just to say it, the banks in this country have done a huge amount of damage to basic trust and confidence, and they have got a long way to go to earn back that trust and confidence. I completely agree with you.

We are, as I said, we are looking at, the President has asked us to look at a range of improvements to this program to help ensure it reaches more people who are underwater, can't refinance, and more people who are unemployed. And we are hopeful that we are going to be able to come up with some improvements to those programs in those areas and we will be walking the responsible committees for those changes as soon as we can here.

Mr. ORSZAG. Just very briefly on the summit, I think the goal is to have an open discussion. Now, you won't be surprised to hear that we hope the outcome of that is that everyone sees the wisdom of the path that we have chosen. But the goal is an open discussion.

Ms. WASSERMAN SCHULTZ. Really. Shocking.

But, okay, I know that would be the goal. But is there an opportunity, is there open-mindedness in the administration so that it is not a my-way-or-the-highway summit?

Mr. ORSZAG. I don't think we ever do my-way-or-the-highway summits. But, again, we are hoping that people see the benefits of the course that we have put forward.

Chairman OBEY. Mr. Rodriguez.

Mr. RODRIGUEZ. Let me thank you very much. It has been very educational. And I want to personally thank you for being here this whole morning.

I know that during these difficult times—and it is unfortunate in terms of the situation that we find ourselves in. But one positive thing is that we have a tendency, personally, to refocus attention as to what we are doing at home and with our families and what we are doing at home in our country as a whole. And that, I think, is very healthy.

And I want to thank you and congratulate you for refocusing attention on those basic issues. Because we can't, as an individual, we can't help anyone if we are hurting, and we can't help anyone externally as a country. We are not there yet.

And one of the things that I think has come to light as a result of that is—and I think we have been negligent as a country in terms of investing in our infrastructure. Mr. Marion Berry talks about our dams. They are 60 to 90 years old. I have probably the worst dam in Texas that just got some money through the stimulus, through the State of Texas, through the Water Development Board, moneys that they got from the stimulus. So I want to thank you for that.

We still have other dams. I have the Amistad, and there is a Falcon dam on the border that were built for four generators and only has two, where we could really make some things happen there.

So I really believe that there could be a serious attempt in terms of looking at transportation, water projects, and those kind of things that not only create jobs but also invest in future generations of Americans. And through the stimulus, we have probably done more of that than any other administration. So I do thank you for that.

I want to also thank you for your investment in our veterans coming back. That is the largest ever. There is still a lot more to be done. There is over 150-something hospitals that are 40 to 60 years old. And, at some point, we are going to have to do something about that. And that is just in the VA itself, not to mention all the rest of the infrastructure.

I know that in the area of health care, the argument against health care is the cost, yet we know that it is going to cost us $4.4 trillion in the next 8 years if we don't do anything; and that we were handed 20 percent cuts last year on Medicare and this year, and we had to try to do that fix.

Can you provide me with some feedback in terms of those individuals that still say that health care is going to be more costly than save money? Where will it save money?

Mr. ORSZAG. Why don't I take a crack at that?

First, there are significant—and, again, these are not our numbers. These are numbers, for example, from the Congressional Budget Office. There are significant efficiencies in having a broader pool of people through the exchange that is at the heart of the legislation.

So, for example, for small businesses, one of the problems that small businesses face today is, if a single employee for a very small business, a single employee has very high cost during a particular year, their rates in the future can skyrocket. If you are in a broader pool, you don't face that risk, and there are efficiencies from that, along with the administrative benefits of having more people involved.

More broadly, what we need to be doing—and this returns to the discussion earlier—is we need to be moving towards emphasizing quality rather than just "more" in health care. And that is the direction in which this legislation moves, I think in the most sensible approach, which is: Health care is a dynamic market, it is constantly evolving. We need a system for keeping pace with that and constantly evaluating what is working and what is not and moving towards the stuff that is working and away from what is not. That is not the structure we have in place now. That is the structure that is created by the legislation.

Ms. ROMER. Can I just add that, when the Council of Economic Advisers looked at the legislation coming through both houses of Congress, our estimates were that it is going to slow the growth of health care costs by about 1 percentage point per year. And that is actually just an incredibly important change. It has just a huge impact on standards of living over an extended period of time.

The other thing I wanted to come back from, I so—you know, your emphasize on infrastructure. One of the things I like so much about what you said was defining it broadly. Right? Including our veterans; I think the President would say our educational system. Right? It is all part of the new foundation, making us a more productive economy, going forward. And I couldn't agree with you more. And it is reflected in our budget and the decisions that we are making.

Mr. RODRIGUEZ. I want to thank you. And also I would just add that we also dish out $100 billion annually for uncompensated care. And that is not necessarily the poor, because they get Medicaid. This is uninsured. And so I want to thank you.

Thank you very much.

Chairman OBEY. Mr. Davis.

Mr. DAVIS. Mr. Chairman, thank you very much.

And I certainly have enjoyed listening to the suggestions and, obviously, the questions of many who serve on this committee. There are a couple of things I want to say before I ask a couple of questions.

I am 66 years old, so I can remember a little bit of history, especially the most recent history. And I remember in 1981, on January the 1st, when you go back and look at the Treasury and see that we owed $933 billion. Not a trillion, but a billion. I can remember driving down the road and heard that Congress raised the debt ceiling to a trillion dollars, and it frightened me; I almost wrecked in my pickup truck, thinking, how do we survive this?

Little did I know that over the next 12 years we would go to $4.1 trillion in debt in just 12 years—a 400 percent increase. And what did we buy with it? What infrastructure did we build with it?

And little did I know that, over the next several years, we would grow that debt to a little over $11 trillion in a period of just 28 years. And what did we buy with it?

Here is what we had in 1981. We had interstate systems that were built. We had all the dams that you are talking about and I talk about that needs repair today already built. If you are in Las Vegas and turn a faucet on, it comes from a lake that was built during the Roosevelt, Hoover, Eisenhower, Nixon, Johnson, or Kennedy era. And that is when the infrastructure of America was built.

The shuttles that we fly today—one blew up in 1986—was built before 1981. We had basically put in motion all the dollars that were needed to build the almost 100 nuclear reactors we had in 1975 through 1985. America's infrastructure was built pre-1981. And we owed less than a trillion dollars. We had four wars—I and II, Korea, Vietnam—before 1981. We built the Panama Canal and gave it back to them when Europe couldn't in 1979.

So, as I hear all this talk about debt, I wonder where these folks were back then. Where were they then? It seems they have backslid a lot when they get in the majority. Because, in 1981, we had 55 Republicans in the Senate and 45 Democrats. In 1995, we had a majority in both the House and Senate of Republicans. In essence, through that 28-year period of time, 18 of those were controlled by the party that today is saying debt matters. It did then, too.

We had a 1,000 percent increase in national debt, and we haven't built a single infrastructure or repaired what we had in this country. And so we have to, in my opinion, take a serious look at reinvesting in America.

When you said a moment ago that 750,000 jobs were lost in the first quarter of last year, that is 2.25 million people. When you talk about the—in the last quarter of 2008 and 650,000 in the first quarter, that is a 1,950,000 people. For instance, in those 6 months that we saw dramatic losses of jobs in this country, if we had not lost those we would have a 6.5 percent unemployment rate today. We have stopped the bleeding. We have put a tourniquet on. And we start seeing at least a rebounding to where we are not continually cutting the throats of the American people.

And so I have always heard that figures don't lie, but people who figure—well, you figure out what they do. Because in here we have heard some comments that I just can't hardly get under my belt.

And so the question I want to ask is this, after making those comments. I think the administration has taken a roughly pessimistic look in their budget report. We had about 6 percent growth in the fourth quarter and about 3 percent, roughly, in the first quarter of this year.

And I think we are notorious sometimes as we make predictions if, in fact, in the first year those predictions are either too pessimistic or too optimistic, it really skews the 10-year period. Normally, we take the first 3 years, make a projection, and then the last 7 years we look at the past.

If, in fact, our rebound is stronger, how do you think that will impact, eventually, the deficits and the budget in the future?

Mr. ORSZAG. Let me just briefly comment on that.

The deficit is extraordinarily sensitive to economic activity. So if economic activity turns out to be stronger than we are currently projecting, the deficit is going to come down even more rapidly than is shown in our budget documents.

Mr. DAVIS. I think also, as you look at the current short-term rates, we are keeping those down, the Feds are and the Treasury are. Of course, I think maybe the long-term bonds that we are seeing may factor in an inflation that is maybe a little bit higher. But if, in fact, we can keep inflation to about 2 percent, let's say, how do you think that will impact, eventually, the future as far as economic growth?

Ms. ROMER. Well, I mean, you raise several good points. I think one of the most important is the idea that there is uncertainty about any forecast. And so, certainly for 2010, in our budget we have a fairly, I think, conservative estimate of growing at 3 percent over the year. And that is certainly less than after other severe recessions.

And so, certainly, if we can get faster growth, as Dr. Orszag has mentioned, that would affect things. Our forecast is based on about a 2 percent inflation rate.

Mr. DAVIS. Thank you.

Chairman OBEY. Mr. Lewis, any concluding comments?

Mr. LEWIS. Thank you very much, Mr. Chairman.

I just certainly would like to thank the panel for your patience as well as the time you have spent with us. It has been extremely helpful.

I am only struck by one item in this discussion that is before us through the week but really hasn't drawn discussion that is conclusive. I noted that Dr. Romer mentioned the exchange earlier, presuming that somewhere out there we might very well have an exchange that involves national health care.

The public is reacting very clearly to this whole discussion. The vast percentage of the public has health care programming that they are happy with. They are very concerned about the Federal Government deciding they want to get between them and their physician. And the exchange idea essentially says we have to have a nationalized system, when the problems we must deal with can be handled much more simply without the government in the middle.

President Obama has expressed support for a national exchange. Speaker Pelosi has expressed support for a national exchange. George Miller, her closest advisor, has done the same. And my friend, Henry Waxman, makes it very clear that he believes the Federal Government ought to be between those physicians and their patients.

I would just suggest that this is very, very dangerous ground, and one ought to think through very carefully where the public is coming from as we move forward here.

Thank you, Mr. Chairman, for your courtesy.

Chairman OBEY. Thank you.

Let me thank all three of you for coming. And let me make a couple of observations of my own.

I personally am very happy that we have a President and a Speaker and a Congress that is determined to do something to reform our health care system. It is all well and good for people to sit back and say, "I have mine. To hell with you." But the fact is that this is a moral issue, and it is also an economic issue. Morally, we cannot afford to have 55 million people without insurance. And, economically, we cannot afford to have a situation in which the insurance companies determine what the hell we are spending on health care day after day after day.

With respect to deficits, I have a sheet in my hand, as the Senator from Wisconsin used to say, which indicates that over the last 50 years we have had only five surpluses. In 4 of those years, we were under the Clinton administration after the Congress took a tough vote in 1993 to begin to close the deficit. And it also indicates that, prior to that, the only surplus in the last 50 years was under LBJ in 1969.

One thing in common: In each of those 5 years, revenues as a percentage of GDP were at least 19.5 percent. If you take a look at the other 45 years when we did not have a balanced budget, in only one of those years did you have revenues approaching 19.5 percent of GDP.

So what the chart also shows is that we were riding with a surplus of $69 billion in 1998 and then we ran into two wars—one justified and one not, in my judgment; we ran into two tax cuts not paid for, except with borrowed money; and, as a result, we went from a surplus of 128 to a deficit of $1.2 trillion. I think there is a lesson there for all of us.

I also think there is a lesson in what Ms. Kaptur said today. Because the fact is, people are desperate out there. And I do not believe there is sufficient urgency being demonstrated by either the administration or the Congress, hard as we have worked on some items. It is very well and good for all of us sitting comfortably in a room like this to not have a sense of urgency about what is happening to people around the country. But we will pay a terrible price in terms of the health of this democracy if we don't more than we are doing today.

If we do not act to provide additional support for States, we will see half the teachers whose jobs we saved last year lose their jobs this year. We will see school boards in trouble. We will see local police departments in trouble. We will see local State budgets in trouble. And, again, I think that means we have to have further action on the job front.

Even though he is not here, I want to congratulate Mr. Cole for what I think was an extremely balanced and fair view of what has happened the past few months. The most unpopular vote I have cast in this Congress, except getting involved in the Panama Canal treaty during the Carter era, the most unpopular vote I ever cast—and it is the vote that Mr. Lewis also cast—was the vote to support the creation of TARP.

I agree that George Bush takes a bad rap on that one. The way I see that, you had President Bush, admittedly belatedly and certainly not with much pleasure, ask the Congress for the TARP authority. You had both presidential candidates, Mr. McCain and Mr. Obama, who answered his call to do the patriotic thing and support giving him that authority. I don't have to like the way Hank Paulson carried out that authority, in some instances. But I do think it is only fair to admit that that helped stave off catastrophe, not just for this country but for the entire world.

I do wish that we would have the same sense of balance exhibited on the part of people when they review the performance of the stimulus package, or the recovery package. Was it perfect? No. I have no doubt that package should have been bigger. I said so at the time; I say it again today. It should have been bigger. But we were required to scale it back in order to get three crucial votes in the Senate because of the filibuster rule. And you know what? Even Babe Ruth strikes out 1,400 times. So I make no apology for having to recognize that the yinging and yanging of democracy sometimes, almost always, produces imperfect results.

So I simply want to say that I would hate to see the shape of this economy today without that stimulus package. And I would remind people, as someone said today, deficits don't cause unemployment, but unemployment certainly causes deficits. And that is why we have to keep at least as much focus on unemployment as we do getting down our long-term deficit.

With that, I thank you all for being here. I appreciate your staying for the whole nine yards.

Without objection, the committee stands adjourned.

QUESTIONS FOR THE RECORD
SUBMITTED BY MR. HONDA OF CALIFORNIA

RESPONSES BY THE HONORABLE TIMOTHY F. GEITHNER
SECRETARY, U.S. DEPARTMENT OF THE TREASURY

1. **Secretary Geithner, despite spending billions to bail out the private sector, not one dime from anywhere has been used to help local municipalities deal with this economic crisis. Although TARP does not "mandate" you provide funds, it does give you the discretion to provide funds to financial institutions, including "public instrumentalities." Why have you apparently chosen to interpret this authority very narrowly and not provide any funds to local governments that have lost more than $1.7 billion when Lehman Brothers failed? If you believe that you do not have the authority, what is it that you need in order to provide the necessary funds?**

I agree that it is important to provide support for state and local governments in this difficult recession. That is why under the American Recovery and Reinvestment Act (ARRA), we provided over $144 billion in direct aid to states and municipalities to support investments in health and education and prevent painful cuts to social services.

In addition, the ARRA provided significant subsidies for state and local governmental borrowing costs through the creation of the Build America Bonds program, which allows for an unlimited issuance in 2009 and 2010 and has already been used to provide financing for over $90 billion of new capital projects as of March 31, 2010. Recent Treasury analysis estimates that for the $90 billion of Build America Bonds issued so far, state and local governments will save approximately $12 billion in present value borrowing costs compared with issuing traditional tax-exempt bonds, taking into account underwriting fees and net interest costs.

While we have employed a wide array of policies to address the financial crisis, Treasury does not intend to make purchases of Lehman Brothers securities from public instrumentalities. Treasury staff will continue to monitor the fiscal challenges facing state and local governments and the state of the municipal bond market.

2. **Secretary Geithner, the Administration has supported the goal of ensuring the broad participation of minority- and women-owned firms in federal programs especially during this economic crisis. To effectively rebuild the economy, and especially the most vulnerable communities touched by the economic downturn, minority- and women-owned firms must have the ability to equally participate in executing these federal programs as well as participating in them. As Chair of the Congressional Asian Pacific American Caucus, I am concerned about the lack of diversity among the firms that were awarded contracts under the Troubled Assets Relief Program (TARP), the Public-Private Investment Program (PPIP), and other federal programs designed to strengthen the nation's financial markets, particularly as no Asian American and Pacific Islander (AAPI) owned firms were selected. I have asked your department about these issues previously, and I have been extremely disappointed in the Department's unresponsiveness to my inquiries, and so I will ask you again as a member of the appropriations committee. What is the state of racial and ethnic diversity of the firms with which contracts were made under these programs? What efforts are you**

undertaking now, and what plans do you have for the future, to conduct outreach to minority businesses?

First, I would like to apologize for any delays in our responsiveness. While the U.S. Department of the Treasury encourages participation by small, veteran-, minority-, and women-owned businesses in PPIP, Treasury has not been involved in selecting or matching partners for the pre-qualified PPIP fund managers, determining the specific terms of engagement, or defining roles and responsibilities for any such partnerships.

Collectively, the PPIP fund managers have established ten unique partnerships with small, minority, and women-owned financial services businesses located in five different states:

Advent Capital Management
Altura Capital Group
Arctic Slope Regional Corporation
Blaylock Robert Van
CastleOak Securities
Jackson Securities, LLC
Muriel Siebert & Co
Park Madison Partners
Utendahl Capital Management
The Williams Capital Group

The services provided by these firms include, among others, asset management, capital raising, broker-dealer, investment sourcing, research, advisory, cash management, and fund administration services. In addition, Gifford Fong Associates, an Asian-Pacific American-owned small-business, is currently working with Bank of New York Mellon to provide fixed income valuation modeling and analytical consulting services to each of our Public-Private Investment Funds. Gifford Fong Associates is also an approved contractor under Bank of New York Mellon's Financial Agency Agreement with the Treasury, currently providing valuation and analytical consulting services in connection with our SBA Securities Purchase Program.

In addition to Gifford Fong Associates, Treasury's financial agents have contracted with 15 other minority- and women-owned businesses to provide support under its various TARP programs. Moreover, Treasury has actively sought the assistance of minority- and women-owned businesses to provide asset management services for investments made under the Capital Purchase Program. These efforts have led to the designation of the following six women- and minority-owned financial agents to serve as asset managers for the Treasury:

Piedmont Investment Advisors, LLC
EARNEST Partners
Avondale Investments, LLC
Lombardia Capital Partners, LLC
Paradigm Asset Management Co., LLC
Bell Rock Capital, LLC

Furthermore, various minority- and women-owned businesses have participated in a number of procurements conducted to obtain services in support of TARP programs. Treasury will continue to seek opportunities for minority- and women-owned firms to serve as financial agents and contractors to the Treasury and to continue to encourage existing Treasury financial agents to identify opportunities to engage minority- and women-owned contractors.